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No. 97-

IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

MAC PANEL COMPANY,

Petitioner,

v.

VIRGINIA PANEL CORPORATION,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the court of appeals erred in applying the patent laws and the precedents of this Court when it reversed a jury verdict and permitted a patent owner to enforce its patent after the patent owner used the market power conferred by the patent to coerce customers into buying unpatented products?

2. Whether the court of appeals erred in applying the antitrust laws and the precedents of this Court when it reversed a jury verdict and ruled that, in the absence of a finding of patent misuse, a patent owner's use of its market power to monopolize a market for unpatented products cannot give rise to antitrust liability?

PARTIES TO THE PROCEEDINGS

All of the parties to this case are listed in the caption.

Pursuant to Rule 29.6 of the Rules of this Court, petitioner states that it has no parent companies and no nonwholly owned subsidiaries.

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MAC PANEL COMPANY,

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PETITION FOR WRIT OF CERTIORARI

Petitioner MAC Panel Co. hereby petitions for a writ of certiorari to review the judgment and opinion of the United States Court of Appeals for the Federal Circuit in the captioned case.

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-28a) is reported at 133 F.3d 860 (Fed. Cir. 1997). The trial of the case was bifurcated, and the district court issued opinions after each trial, the first of which is reported at 887 F. Supp. 880 (W.D. Va. 1995) and the second of which (Pet. App. 35a-60a) is reported at 1996 WL 335381 (W.D. Va. May 29, 1996).

JURISDICTION

The court of appeals entered judgment on December 30, 1997. (Pet. App. 1a.) MAC Panel's timely petition for rehearing and its suggestion for rehearing *in banc* were denied on February 20, 1998. (Pet. App. 61a.) The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISIONS AND STATUTES INVOLVED

35 U.S.C. § 271 provides in pertinent part:

> (d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or the illegal extension of the patent right by reason of his having done one or more of the following: . . .
>
> (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

STATEMENT

Our system of patent law is predicated upon Congress's Constitutional authority to "promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." U.S. CONST. art. I, § 8. Patents play an increasingly vital role in this country's economy, as technical

innovation and intellectual property fuel growth and prosperity. The United States Court of Appeals for the Federal Circuit, which reviews all patent appeals, has played an important role in this trend by bringing consistency to the patent laws, recognizing the value of patents, and supporting their enforcement.

Patents, however, can be misused. Patents confer the right to exclude others from practicing an invention, which in turn can confer enormous market power. That market power can then be exploited to influence or even control markets for products that are not entitled to patent coverage. Thus, for example, if a consumer wants or needs a product that is covered by a patent, the patent owner may be able to coerce the consumer to purchase unpatented products in order to access the patented product. The patent owner may do this using any number of techniques, such as selling the patented product only on condition that the consumer agree to purchase unpatented products.

More than eighty years ago, this Court, confronted with such abuses of the power conferred by patents, created the doctrine of patent misuse. Under this doctrine, if a patent owner exploits its patent by leveraging the market power of a patent beyond its lawful scope, the courts will withhold any remedy for patent infringement. Throughout this century, numerous Supreme Court cases have applied the misuse doctrine to restrain patent owners from abusing their power. As recently as 1988, Congress amended the patent statute to better define patent misuse, implicitly recognizing the soundness and importance of the doctrine in the process.

The Federal Circuit, however, has virtually eradicated the patent misuse defense. In its nearly eighteen-year history, the Federal Circuit has issued only one opinion upholding a

misuse defense, and that opinion was rendered almost twelve years ago. In every other misuse case before the Federal Circuit, the court has either reversed or vacated misuse verdicts or affirmed findings of no misuse. With its reversal of the trial court's decision in the captioned case, the Federal Circuit's hostility toward the misuse defense has reached its apex. The court turned a blind eye to the patent owner using its patent and its 90 percent market share to coerce customers into buying unpatented products and reversed a jury verdict and achieved this result by turning the standard of review on its head—ignoring whether substantial evidence supported the verdict and relying instead on "ample evidence" proffered by the patent owner at trial to support its position.

Moreover, the Federal Circuit's hostility toward the misuse doctrine spilled over into its antitrust analysis. Essentially the court ruled there could be no antitrust violation in the absence of patent misuse. That circular reasoning not only is wrong as a matter of law, but also ignores the separate and discrete theories upon which petitioner's misuse and antitrust arguments were based, and further reflects the Federal Circuit's unwillingness to countenance misuse defenses and antitrust counterclaims in patent infringement actions.

Background

MAC Panel Company and Virginia Panel Corporation are the two major competitors in the high-performance interface segment of the Automatic Test Equipment (ATE) industry. ATEs are used to test complex electronic systems, such as those found in aircraft. Virginia Panel dominated the interface market for many years, but in the early 1990s began losing substantial market share to MAC Panel. Unsatisfied with its already commanding share of the market, Virginia

Panel set out on an unlawful campaign to eliminate MAC Panel from the marketplace.

A brief overview of ATE technology is warranted before continuing. When diagnostic tests are run on the electronic systems in a fighter jet or commercial aircraft, literally thousands of electrical connections must be made between the aircraft and a stationary test station. Making so many connections one by one would require enormous time and effort and create the potential for tangled wires or improper connections. ATEs allow multiple precision connections to be made simultaneously. A typical ATE system has a "receiver" wired to the stationary test unit, and an interchangeable test adaptor (ITA) wired to the aircraft. Thousands of pins, modules, wires, and other generic components are mounted both on the receiver and the ITA. Once the ITA is "mated" to the receiver, the desired electrical connections are made.

Virginia Panel owns a patent (the '005 patent) directed to a latching mechanism for mating an ITA to a receiver. By virtue of the '005 patent, Virginia Panel can prevent others from selling receivers configured with its patented latch.[1] Virginia Panel cannot, however, lawfully prevent anyone from selling pins, modules, wires, and the like for use with ATE equipment, even with its patented latch. Moreover, MAC Panel has the right to sell ITAs, subject to certain conditions, as a result of an implied license imposed by the district court and

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[1] In fact, in the captioned case, Virginia Panel sought and successfully obtained an injunction and damages against MAC Panel for infringement of the '005 patent. Immediately after the district court's infringement verdict, MAC Panel introduced a redesigned ATE system to avoid any question of infringement.

unappealed by Virginia Panel.[2] In short, the patent gives Virginia Panel exclusivity to one and only one thing—receivers. But that was not enough for Virginia Panel.

Rather than face competition from MAC Panel on unpatented components, Virginia Panel elected to leverage the market power conferred by its patent rights to dominate these other markets as well. The device chosen by Virginia Panel to leverage its patent rights was a contrived warranty-voiding policy. Under this policy, still in effect, Virginia Panel threatens to void warranties on its patented products if a customer uses non-Virginia Panel components therewith—components such as unpatented connector pins and modules. Thus, Virginia Panel uses its dominant market position and the lawful exclusivity bestowed by its '005 patent to create a captive audience for its receivers, then coerces customers into buying its unpatented components using its warranty-voiding threats, thus extending the limited exclusivity of its patent grant to a world of staple products. Competitors like MAC Panel cannot compete for the receiver business because of the '005 patent (and because Virginia Panel has succeeded in using its market power to make its patented receiver an industry standard). Nor can they compete for the unpatented components because customers are afraid of losing their warranties on the receivers. Thus, Virginia Panel is using its patent to coerce customers into purchasing nonpatented, staple components, which, as explained below, is contrary to the law of this Court.

Virginia Panel applied its patent-leveraging warranty scheme pervasively. Virginia Panel not only included its

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[2] Under that implied license, MAC Panel has the right to sell ITAs for use with Virginia Panel's receivers sold prior to January 1, 1993. MAC Panel also sells ITAs for use with its redesigned ATE system.

warranty-voiding threats on its purchase orders and in product advisories directed to both governmental programs (such as the Navy's "CASS" program) (C.A. App. A10052) and commercial programs (such as "ARINC") (C.A. App. A10060), but also visited its customers one by one to deliver its threats in person (C.A. App. A10033-34). As Virginia Panel's internal documents reveal, its warranty-voiding threats had only one objective—to dominate the market. For example, in one letter to its sales force, Virginia Panel posits the question "How do we keep Mac out?" and then instructs its sales force:

> The answer is very simple. VPC has on file letters stating that VPC is the only qualified supplier and a product advisory stating that the warranty on the CASS station is void if another manufacture's [sic] product is used. The information must be given to the Engineer or program manager before the RFQ is sent out. If the Representative waits until the RFQ has been issued then it is tough to keep Mac out. We will not let the representative just ride through on CASS without putting in an effort to keep Mac out. This information must be delivered in person, not mailed. When you use the mail to inform the buyer and Engineer it looses [sic] its punch.

(C.A. App. A10033) (underscoring in original). Likewise, in its 1993 Business Plan, Virginia Panel states, as part of its "COMPANY THRUST," that the "[a]ggressive use of proprietary data such as patents and warranty clauses . . . should insure dominance" of the CASS program. (C.A. App. A10009.) In short, Virginia Panel's warranty scheme had the avowed objective of dominating the markets for unpatented products at MAC Panel's expense.

Virginia Panel's patent-leveraging warranty scheme accomplished its objective. Virginia Panel was able to dominate the market and keep MAC Panel out. In the first three years of Virginia Panel's scheme, MAC Panel's overall market share plummeted from 21 percent to 10 percent—a 53 percent drop. (C.A. App. A6711, A10069.) MAC Panel presented fact witnesses at trial who testified that Virginia Panel's warranty threats succeeded in dissuading customers from buying MAC Panel's components. (C.A. App. A6480-81, A6321-22.) In addition, two economic experts testified that Virginia Panel's patent-leveraging scheme accomplished its goal of taking the majority of MAC Panel's market share away. (C.A. App. A6711-15, A7186-90.)

Based on all of the evidence submitted at trial, the jury concluded that Virginia Panel had misused its '005 patent and violated federal antitrust law. On Virginia Panel's post-trial motion for judgment of a matter of law (JMOL), the district court judge affirmed those verdicts. On appeal, the Federal Circuit, ignoring the law of this Court, reversed both verdicts. As explained below, the Federal Circuit's decision reflects a hostility for the misuse and antitrust doctrines that runs roughshod over the law and the facts of the case and opens the door to widespread abuse of the enormous market power that patents can confer.

REASONS FOR GRANTING THE PETITION

In the current economic and legal climate, patents can confer enormous market power. As a result, their enforcement must be subjected to some limitations and oversight to ensure that this power is not being abused to restrain competition for unpatented products. Historically, such limitations have been imposed by Congress and this Court through the patent misuse doctrine and the antitrust laws. The Federal Circuit has

demonstrated such hostility to these legal concepts, however, that neither can be used today as a check on a patent owner's power. The Federal Circuit's hostility to the misuse and antitrust doctrines is particularly troubling because, as the sole patent appellate court, the Federal Circuit's misuse opinions are binding on all district courts throughout the country, and all patent-related antitrust cases are appealed to the Federal Circuit. This petition should be granted because these legal concepts must be revitalized if patents are to be confined to their legitimate scope and to fulfill their constitutional purpose.

Misuse

This Court has ruled repeatedly and unambiguously that attempts by patentees to coerce customers into purchasing unpatented products to enjoy the use of their patented products constitute patent misuse. For example, in *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942), this Court found misuse based upon the patentee's illegal attempts to tie the leasing of its patented salt dispensing machines to the purchase of its unpatented salt tablets, ruling that the patentee was "making use of its patent monopoly to restrain competition in the marketing of unpatented articles, salt tablets, for use with the patented machines, and [was] aiding in the creation of a limited monopoly in the tablets not within that granted by the patent." *Id.* at 491.

In *Carbice Corp. v. American Patents Dev. Corp.*, 283 U.S. 27 (1931), the patentee held a patent on a transportation package that used dry ice as a refrigerant. When the patentee sold dry ice to the public, it included on each invoice a notice that instructed that the dry ice was only to be used in the patentee's refrigerant containers. Even though the patentee never attempted to enforce this restriction, this Court held that the patentee was guilty of misuse:

> If a monopoly could be so expanded, the owner of a patent for a product might conceivably monopolize the commerce in a large part of the unpatented materials used in its manufacture. The owner of a patent for a machine might secure a partial monopoly on the unpatented material employed in it. The owner of the patent in suit might conceivably secure a limited monopoly for the supplying not only of solid carbon dioxide, but also of the ice cream and other foods, as well as the cartons in which they are shipped.

Id. at 32. Over and over, this Court has held that attempts by patentees to leverage their patents into effective monopolies over unpatented products constitute misuse.[3]

In 1988, Congress reaffirmed the applicability of this Court's misuse holdings in cases such as this. That year, Congress amended 35 U.S.C. § 271(d) by adding § 271(d)(5), under which a party cannot be found guilty of misuse for "condition[ing] the license of any rights to the patent or the sale of the patented product on . . . the purchase of a separate product, *unless,* in view of the circumstances, *the patent owner has market power* in the relevant market for the . . . patented product on which the license or sale is conditioned." (Emphasis added). Since Virginia Panel has some 90 percent of the relevant product market, it indisputably has market power. Accordingly, the safe haven of § 271(d)(5) does not apply to the present case, and the fact that Congress specifically excluded patentees with market power from that safe haven

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[3] *See also International Salt Co. v. United States,* 332 U.S. 392 (1947); *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944); *B.B. Chem. Co. v. Ellis*, 314 U.S. 495 (1942); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

reaffirms the applicability of the misuse doctrine in cases such as this. Thus, this Court's misuse decisions remain good law.

The Federal Circuit, however, has paid no heed to this Court's guidance. In line with its previous misuse decisions, the Federal Circuit blessed Virginia Panel's patent-leveraging warranty scheme as a matter of law:

> [V]oiding a warranty, or threatening to do so, does not constitute use of a patent to control unpatented products.

(Pet. App. 20a.) The Federal Circuit went on to declare that warranty schemes — sham or otherwise — can *never* constitute patent misuse:

> [V]oiding a warranty on a product already sold, while possibly a breach of warranty, cannot be a tying arrangement because the purchaser is not deciding whether to buy a product. As for future sales, the threat is not to refuse to license, but only to limit a warranty, which is a matter of contract law between buyer and seller having no misuse implications.

(Pet. App. 20a.) That holding eviscerates the patent misuse doctrine. Under that holding, patentees have impunity to coerce the purchase of unpatented products through the use of warranty clauses or other coercive tactics directed to their patented components, with the same purpose and effect as a traditional tie.

This Court has repeatedly stressed that coercion is the key to misuse. When a patent owner coerces a customer into purchasing unpatented components by leveraging its patented

products, the patent owner need not literally force the contemporaneous purchasing of the products together.

This Court's decision in *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938), is particularly instructive in this regard. In *Leitch*, the patentee did not contractually force its customers to buy unpatented bituminous emulsion (tar) for use with its patented road builder. Rather, the patentee adopted "a method of doing the business which is the *practical equivalent* of granting a written license with a condition that the patented method may be practiced only with emulsion purchased from it." *Id.* at 460-61 (emphasis added). The Court held the patent unenforceable, citing *Carbice*'s rule of law that it is improper to attempt, without sanction of law, "to employ the patent to secure a limited monopoly of unpatented material used in applying [an] invention." *Leitch*, 302 U.S. at 462. Significantly, the Court rejected the patentee's argument that its business practices did not constitute misuse because it did not tie its products together "by contract, notice, or otherwise":

> The distinction upon which [the patent owner] thus rests is without legal significance. The Court held in the *Carbice* case that the limitation upon the scope or use of the patent which it applied was "inherent in the patent grant." It denied relief, not because there was a contract or notice held to be inoperative, but on the broad ground that the owner of the patent monopoly, ignoring the limitation in the patent grant, sought by its method of doing business to extend the monopoly to unpatented material used in practicing the invention. By the rule there declared every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited. It applies whether the patent be for a machine, a product, or a process. It applies whatever the nature of the device by which

> the owner of the patent seeks to effect such unauthorized extension of the monopoly.

Id. at 463. Thus, the law of this Court is *not* that a patentee need hold a customer at gunpoint to commit patent misuse, but that a patent owner misuses its patent when it uses the power conferred by its patent to coerce customers into purchasing its unpatented components. *See also Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 133-34 n.27 (1969) (affirming lower court's holding that offering a "choice" of alternative terms at onerous rates was merely an attempt to coerce acceptance of a package license and constituted misuse); *Carbice*, 283 U.S. at 32-34 (a label restriction was enough to constitute misuse even where the patentee never attempted to enforce the restriction).

Virginia Panel's patent-leveraging warranty scheme readily fits within the ambit of *Carbice* and *Leitch* and the various other Supreme Court misuse decisions, as the avowed purpose of Virginia Panel's scheme was to "dominate the market" in unpatented accessories and to keep its only competitor out of the market. (C.A. App. A10009, A10033.) As *Leitch* instructs, such objectives are unlawful regardless of "the nature of the device" the patent owner uses to effect its intentions. Virginia Panel's device may not have been a traditional "tie," but as Virginia Panel's business plan, two expert witnesses, a jury, and a judge all concluded, the patent-leveraging warranty scheme had the purpose and effect of unlawfully extending Virginia Panel's patent monopoly.

The Federal Circuit, in holding that threatening to void a warranty "does not constitute use of a patent to control unpatented products," simply ignored the coercive power conferred by the '005 patent as implemented in Virginia Panel's scheme. If one starts with Virginia Panel's initial

presumption that customers will not jeopardize their warranties by buying non-Virginia Panel products (a presumption that has since been confirmed by the market), Virginia Panel's tactic is no different in purpose and effect than an actual "tying" arrangement; that is, customers are coerced into buying Virginia Panel's unpatented products to enjoy the use of its patented ones. The patent is key to this scheme. Virginia Panel's patent and its dominant market position assure sales of its receivers, and then Virginia Panel's warranty policy takes care of the rest. If it were not for Virginia Panel's patent, MAC Panel and other competitors would be able to make and sell the Virginia Panel receiver that has become the industry standard, and Virginia Panel would not have the leverage needed to dominate the remainder of the market.[4]

The Federal Circuit's overt hostility to the misuse doctrine is perhaps best illustrated in its improper reweighing of the evidence to comport with its desired result. Misuse was submitted to the jury. As the Federal Circuit correctly stated, it must "presume that the jury resolved the underlying factual disputes in favor of the verdict winner and leave those presumed findings undisturbed if they are supported by substantial evidence." (Pet. App. 15a). But it did nothing of the sort. After finding that voiding a warranty cannot constitute misuse as a matter of law, in a quasi-"rule of reason" analysis it assumed the role of juror and concluded that there was "ample" evidence that Virginia Panel's warranty policy was

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[4] Virginia Panel voided warranties both prospectively and retrospectively. (Pet. App. 20a.) Either way, the patent insured the initial sale. At least with the prospective threats, customers knew they were the victims of an (effective) tie. With the retroactive threats, the tie was even less "voluntary." Someone who already had invested in a full ATE system would certainly not risk voiding its warranty by using MAC Panel's unpatented components.

"based on the legitimate business practice of protecting the integrity of its ITAs." (Pet. App. 21a). There are at least three glaring deficiencies in this makeshift rule of reason analysis.

First and foremost, the standard of review is *not* whether there was "ample" evidence contrary to the jury's verdict. Rather, the standard of review is whether the verdict was factually supported by "substantial evidence." The burden rested squarely on Virginia Panel to demonstrate a lack of substantial evidence to support a misuse verdict. The Federal Circuit's observation that there was "ample" countervailing evidence, even if true, is entirely irrelevant.

Second, the Federal Circuit failed to consider Virginia Panel's admissions in its documents that its warranty-voiding threats had the objective not of "protecting the integrity" of its products but rather, in its own words, of "dominating the market." (C.A. App. A10009, A10033.)

Third, the Federal Circuit failed to consider the substantial evidence presented by MAC Panel evidencing that Virginia Panel's warranty scheme was not based on legitimate business objectives, in that, *inter alia*: (1) Virginia Panel *encouraged* interchangeability of its patented and unpatented components to its customers when it was commercially advantageous to do so, for example telling perspective customers "Our ITA's are compatible with the Mac Arinc ITA's and can be used interchangeably, as well as pins and modules." (C.A. App. A10061); (2) Virginia Panel threatened to void its warranty on receivers in situations where it knew that it had no contractual right to do so, such as with devices sold under the CASS Station contract (C.A. App. A6120); (3) Virginia Panel's senior officers admitted two years after implementing the warranty-voiding threats that they were not aware of *even a single failure* resulting from the intermixing of

MAC Panel and Virginia Panel parts (C.A. App. A7259-62, A7319-21); and (4) Virginia Panel never presented any evidence that it actually voided a warranty for intermingling of products. The jury was not only entitled to reject Virginia Panel's proffered explanation, but the evidence left little choice otherwise. In short, the Federal Circuit's assertion that there was "ample" evidence that Virginia Panel's warranty-voiding scheme was based on legitimate business purposes was both legally irrelevant and factually untenable.

In short, patents *can* be misused and warranty-voiding schemes *can* be the tool to leverage a patent and illegally extend the patent owner's market power. Just as in an actual tie, the power from the patent is being used to dominate a world of unpatented products. The ramifications of the Federal Circuit's refusal to recognize this threat are profound. Indeed, to use a hypothetical derived from recent headlines, a provider of computer operating systems could threaten to void customers' warranties if they use another vendor's Internet browsers, thus coercing customers into purchasing their Internet browsers instead. The Federal Circuit's indifference to these anticompetitive threats and narrowing of the misuse doctrine have gone too far, and this Court needs to set forth some guidelines on the misuse doctrine, or at least reestablish existing ones.

Antitrust

In its analysis of MAC Panel's antitrust claim, the Federal Circuit again ruled contrary to the law of this Court. As explained above, as a result of Virginia Panel's unlawful behavior, the jury found Virginia Panel guilty of monopolization and attempted monopolization under Section 2 of the Sherman Act, 15 U.S.C. § 2. On JMOL, the district court judge upheld the antitrust verdict. (Pet. App. 48a.) Yet

the Federal Circuit reversed the monopolization holding, misapplying federal antitrust law and this Court's precedent in the process. More specifically, the Federal Circuit committed two major errors in its antitrust holding.

First, the Federal Circuit held that its ruling that Virginia Panel had not misused its patent meant that Virginia Panel had not violated the antitrust laws. More specifically, the Federal Circuit ruled:

> [W]e have held, *supra* [in the misuse analysis], the conduct relied upon by [MAC Panel's experts] was not legally improper. Accordingly, the evidence on which MAC relies fails to demonstrate a causal connection between the defendant's violation and the damages claimed.

(Pet. App. 25a.) The Federal Circuit stated its new rule of law in no uncertain terms:

> [B]ecause we determine that the conduct underlying the allegations of misuse does not amount to patent misuse, the same conduct cannot support a judgment that VP's conduct violated the Sherman Act.

(Pet. App. 27a.) The Federal Circuit's "no misuse, no antitrust" rule is completely contrary to logic and law. Under the Federal Circuit's holding, for example, price-fixing would no longer violate the Sherman Act because it carries no misuse implications. Under the Federal Circuit's misuse and antitrust holdings, taken together, the aforementioned hypothetical computer operating system provider would as a matter of law be immune from liability for monopolization because its unlawful warranty scheme has been blessed under the misuse laws.

Contrary to the Federal Circuit's holding, misuse and antitrust, while often interrelated, are two different principles of law. Misuse involves the leveraging of one's patent rights to control an unpatented product. Monopolization need not involve the leveraging of patent rights, but rather the unlawful acquisition or maintenance of one's market power. More specifically, a violation of Section 2 of the Sherman Act involves: (1) the possession of monopoly power in the relevant product market; and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident. *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 481 (1992). Notably, a finding of misuse is not an element of a Sherman Act violation.[5]

Nor should it be. Assume for the sake of argument that the Federal Circuit was right and that voiding a warranty "is not the use of a patent at all." Does that mean that Virginia Panel's warranty scheme should be immune from scrutiny under the two-part test stated in *Eastman Kodak*? No. Under the two-part test established by this Court, Virginia Panel is still a monopolist. Virginia Panel possesses some 90 percent of the undisputed relevant product market, meaning that the first prong, monopoly power, is readily satisfied. *See, e.g., United States v. Grinnell Corp.*, 384 U.S. 563, 571 (1966); *American Tobacco Co. v. United States*, 328 U.S. 781, 797 (1946). And the second prong is easily met, for in Virginia Panel's own words, it used its warranty scheme to "*insure dominance*" and "*keep MAC out.*" The judge and jury rejected Virginia Panel's

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[5] Indeed, in passing the 1988 revisions to 35 U.S.C. § 271(d) (discussed *supra* p. 10-11), Congress rejected a bill that would have made the doctrine of patent misuse coextensive with federal antitrust law, opting to keep misuse a separate and distinct doctrine. In other words, Congress specifically rejected the Federal Circuit's "no misuse, no antitrust" rule.

proffered business justification in favor of the substantial evidence introduced at trial indicating that the scheme lacked legitimate business objectives. The Federal Circuit should not have reversed the resulting verdict.[6] When a party uses its monopoly power "to foreclose competition, to gain a competitive advantage, or to destroy a competitor," that party commits an antitrust violation. *Eastman Kodak*, 504 U.S. at 482-83. Virginia Panel used its monopoly power to accomplish all three of these unlawful objectives.

The *second* major error committed by the Federal Circuit involved the Federal Circuit's impermissible reweighing of the evidence relating to antitrust injury. After espousing its "no misuse, no antitrust" rule, the Federal Circuit again engaged in improper reweighing of the evidence, concluding that "an alternate cause" (a sole-source Navy contract for the purchase of *receivers*) was blameworthy for MAC Panel's loss of market share. (Pet. App. 25a.) The Federal Circuit ruled that, because of this "alternate cause," the jury "could not reasonably have relied" on MAC Panel's two economic experts. (Pet. App. 25a). But the Federal Circuit turned a blind eye to the fact that the "alternate cause" (the sole-source Navy contract) was fully considered and explained by MAC Panel's experts. Since the "alternate cause" only related to *receivers* and MAC Panel's claimed damages were solely for sales of *ITAs*, the Federal Circuit's reweighing of the evidence was in clear error. As Navy personnel testified (C.A. App. A6844), and Navy regulations explain (C.A. App. A10063, ¶ 18), *anyone* is allowed to sell ITAs, rendering the

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[6] *See, e.g., Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 604, 608-10 (1985)(even where "contrary inferences might reasonably be drawn," the jury's verdict deserves deference where the jury could reasonably have rejected the proffered business justification).

sole source contract irrelevant to the antitrust claim.[7] By encouraging multi-source bidding, the Navy can assure that it is getting its CASS TPS components (such as ITAs) at a competitive price.

After hearing all of the evidence, the jury rejected Virginia Panel's proffered "alternate cause," and Judge Michael, who presided at trial and thus was in a position to not only consider the evidence but also weigh the witnesses' credibilities, specifically rejected the argument later adopted by the Federal Circuit:

> The court is not convinced that the jury failed to consider the evidence that suggested that [MAC Panel's] loss of market share in the relevant product market was attributable to legitimately competitive factors [including, *inter alia*, the sole source contract]. However, the jury declined to award [MAC Panel] its full requested amount of alleged damages. Thus the court concludes that there was ample evidence demonstrating that [MAC Panel] suffered antitrust injury and that the jury considered [Virginia Panel's] proffered argument that legitimate business practices accounted for a portion of [MAC Panel's] injury.

(Pet. App. 47a-48a.) In short, the trial court judge and jury rejected Virginia Panel's arguments as being against the weight of the evidence. The Federal Circuit's failure to give

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[7] Moreover, MAC Panel is entitled to sell ITAs under the CASS program because: (a) its implied license allows it to do so; (b) Virginia Panel's patent does not give it exclusivity over government programs such as CASS TPS; and (c) MAC Panel's ITAs can be used with MAC Panel's redesigned (and noninfringing) receivers.

appropriate deference to those factual holdings stripped MAC Panel of its right to a trial by jury. Its reversal should not stand.

CONCLUSION

For the reasons stated, a writ of certiorari should issue to review the judgment of the United States Court of Appeals for the Federal Circuit.

Respectfully submitted,

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APPENDIX

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

96-1416, -1432

VIRGINIA PANEL CORPORATION,
Plaintiff/Cross-Appellant,

v.

MAC PANEL COMPANY,
Defendant-Appellant.

DECIDED: December 30, 1997

Before LOURIE, *Circuit Judge,* ARCHER, *Senior Circuit Judge,** and RADER, *Circuit Judge.*

LOURIE, *Circuit Judge.*

MAC Panel Co. (MAC) appeals from the judgment of the United States District Court for the Western District of Virginia holding that MAC infringes U.S. Patent 4,329,005, owned by Virginia Panel Corp. (VP). *See Virginia Panel Corp. v. MAC Panel Co.*, 887 F. Supp. 880 (W.D. Va. 1995) (*Virginia Panel I*). VP cross-appeals from the *Virginia Panel I* decisions to enhance damages for infringement by only ten percent and not to award attorney fees, and from the *Virginia Panel Corp. v. MAC Panel Co.*, Civ. A. No. 93-0006-H, 1996 WL 335381 (W.D. Va. May 29, 1996)

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* Senior Circuit Judge Glenn L. Archer, Jr. vacated the position of Chief Judge on December 24, 1997.

(*Virginia Panel II*) decisions that VP engaged in patent misuse and violated the antitrust laws. Because the district court's error in submitting the construction of the '005 patent's claim language "reciprocating slide plates" to the jury was harmless and because the district court did not abuse its discretion by enhancing damages by only ten percent and refusing to award attorney fees, we affirm the *Virginia Panel I* decisions. However, because the district court erred in declining to grant judgment as a matter of law to VP on the patent misuse and antitrust claims, we reverse the *Virginia Panel II* decisions that VP engaged in patent misuse and violated the antitrust laws. We also modify the judgment to correct a plainly inadvertent error of the district court.

BACKGROUND

VP owns the '005 patent, which is directed to a mechanism invented by VP employees for engaging an "interchangeable test adapter" (ITA) and a "receiver." As explained in the written description portion of the patent specification, ITAs and receivers are typically the two primary components of Automatic Test Equipment (ATE) used for the diagnostic testing of systems having thousands of electronic connections, such as airplane black boxes. To achieve a suitable precision engagement between the electrical contacts of the ITA and those of the receiver, the claimed mechanism requires that the ITA be suspended from "fixed hanger plates" on opposite sides of the receiver. Furthermore, the contacts of the ITA must be drawn into contact with the receiver contacts through "reciprocating" movement of "slide plates" relative to the hanger plates. Claim 1, which is the broadest independent claim at issue, reads as follows:

> 1. A mechanism for positioning a test adaptor in operative relationship with a receiver comprising

[a] a receiver body,

[b] *fixed hanger plates* on opposite sides of the receiver body having spaced guide slots which are parallel and whose axes are normal to an electrical contact plane of the receiver,

[c] *reciprocating slide plates* on opposite sides of the receiver body extending adjacent to the fixed hanger plates and having spaced profiled cam slots including entrance positions parallel to said straight slots and adapted in one position of the slide plates to register with entrance portions of the straight slots,

[d] manually operable means on the receiver body to *reciprocate said slide plates in unison relative to the fixed hanger plates* between test adapter release and locking positions,

[e] a test adaptor including side members and pairs of spaced projecting locator elements on the side members . . . , and

[f] said projecting locator elements each comprising a pair of side-by-side independent rollers . . . .

(emphasis and paragraphing added).

MAC, VP's sole competitor in the relevant ATE market, makes an ITA/receiver interface which uses a "rotating latch mechanism" to push the ITA into contact with the receiver and to achieve proper alignment between the components' electrical contacts. After it became apparent that MAC was making significant inroads into VP's share of the ATE market in the mid-1980s and early 1990s, VP launched what it called a "Big MAC Attack." Apparently as part of this "attack," VP notified MAC's customers (including a number of government contractors and agencies) that it believed that certain MAC ITAs infringed

the '005 patent, asked them to "cease and desist in using and selling such infringing items" and either implicitly or explicitly threatened suit. VP also notified its own customers, both old and new, that warranty service for VP parts would not be extended to VP parts that had been used with non-VP components. At about the same time, during contract negotiations with ASCOR, one of MAC's customers, VP proposed an exclusive license agreement under the '005 patent in which ASCOR would agree to purchase *all* ATE components, including a number of unpatented components, from VP, not MAC. Apparently on the advice of counsel, VP never entered into this agreement. In 1988, to further strengthen its market position, VP also became the sole source subcontractor under GE/Martin Marietta's Consolidated Automated Support System (CASS) Test Program Sets contract with the Navy.

In 1993, VP filed suit asserting that MAC willfully infringed the '005 patent (as well as U.S. Patent 4,655,530, which is not at issue in this appeal) and that MAC violated 15 U.S.C. § 1125(a) (1994), Lanham Act § 43(a), by falsely advertising that it had qualified as a supplier under the CASS contract. MAC defended on numerous grounds including invalidity and unenforceability, based on asserted misuse of the '005 patent; MAC also asserted antitrust and state false advertising counterclaims based in large part on VP's above-mentioned conduct. Following the parties' pretrial motions, the district court granted summary judgment that MAC did not literally infringe the '005 patent, concluding that the "fixed hanger plate" limitation was not literally met. The court then bifurcated the proceedings into a standard "infringement" trial, in which infringement under the doctrine of equivalents was tried, and an "antitrust" trial. In the latter trial, both MAC's patent misuse defense and its antitrust counterclaims were tried, along with the parties' unfair competition and state false advertising claims.

In the infringement trial, the court submitted the question of the construction of "reciprocating slide plates" to the jury, which rendered a general verdict of contributory infringement and also found willfulness. The jury awarded approximately $1.2 million in damages for infringement of the '005 patent and $20,300 for infringement of the '530 patent. The court reduced the damages based on an implied license, and decided to enhance damages by only ten percent; it declined to award VP attorney fees. *See Virginia Panel I*, 887 F.Supp. 880, 884-85 (1995).

In the antitrust trial, a different jury found that VP had misused the '005 patent and had violated both federal antitrust law and state false advertising law, and that MAC had not violated § 1125(a). In view of VP's misuse, the court vacated the infringement damages award. However, based on its finding that VP had purged its misuse by ceasing the above-mentioned practices and that the detrimental effects of VP's misuse had been dissipated, the court enjoined MAC's future manufacture, use, or sale of the receivers and ITAs adjudged to infringe the '005 patent and the modules adjudged to infringe the '530 patent, "for commercial non-governmental purposes." *Virginia Panel II*, 1996 WL 335381, at *11. The court then awarded MAC $456,666 in trebled antitrust damages, in addition to $913,332 in attorney fees and $157,928 in costs, but denied MAC's motion for future antitrust damages related to its loss of prospective CASS sales. *See id.* at *12-*13.

MAC appeals from the judgment that it infringed the '005 patent.[1] VP cross-appeals from the decisions to enhance

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[1] MAC also appeals from the *Virginia Panel II* decisions that VP had purged its misuse and that MAC was not entitled to present evidence of future antitrust damages. However, in light of our reversal of the district court's erroneous patent misuse and antitrust decisions, we need not consider these issues.

damages by only ten percent and not to award attorney fees, as well as from the decisions that it engaged in patent misuse and violated the antitrust laws. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1) (1994).

DISCUSSION

A. Infringement

We first address MAC's appeal from the decision that its sales of interface devices with a rotating latch mechanism constitute contributory infringement of the '005 patent. Prior to the infringement trial, the district court judge granted summary judgment that the MAC interface devices do not have "fixed hanger plates" and therefore do not literally infringe the patent. At trial, however, VP argued that the MAC devices infringe under the doctrine of equivalents because those devices (1) employ an equivalent of the claimed "fixed hanger plates" and (2) literally meet every other limitation, including the "reciprocating slide plates" limitation. The district court submitted to the jury, *inter alia*, the issue of the interpretation of the term "reciprocating slide plates." The jury rendered a general verdict of infringement of both the '005 and '530 patents one month prior to the issuance of our decision in *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 34 USPQ2d 1321 (Fed. Cir. 1995) (in banc), *aff'd*, 116 S. Ct. 1384, 38 USPQ2d 1461 (1996), in which we held that claim construction should be decided by the court, not the jury, *see id.* at 979, 34 USPQ2d 1321, 1329 ("We therefore . . . hold that in a case tried to a jury, the court has the power and obligation to construe as a matter of law the meaning of language used in the patent claim.").

MAC moved for a new trial with regard to the '005 patent, citing *Markman* for the proposition that "submitting the

issue of claim interpretation to the jury was a fundamental error requiring a new trial.'' *Virginia Panel I*, 887 F. Supp. at 889. The court denied MAC's motion on the ground that MAC had waived the issue when it failed to object to the court's earlier decision to submit the issue of claim interpretation to the jury, *id.* at 889-90, and alternatively on the ground that the asserted error was harmless. Regarding the latter ground, the court stated:

> [I]n this case, the court's error, if any, in failing to instruct the jury as to the meaning of the claims, including the disputed terms ''slide'' and ''reciprocate,'' is rendered harmless by the fact that the court's interpretation of the disputed claim terms would have been the same as the claim interpretation that the jury must have used in finding the '005 patent infringed by [*sic.*, under] the doctrine of equivalents.

Id. at 890.

MAC argues that the court abused its discretion in refusing to grant a new trial in light of *Markman*. MAC contends that it did not waive the issue and that the error was prejudicial because (1) the court neglected its duty to interpret the disputed claim term and (2) without the court's guidance, the jury misinterpreted that term. MAC contends that according to the '005 patent, the ''reciprocating slide plates'' must move along a purely linear path. VP responds that, even assuming that MAC did not waive the issue, the error was harmless because the jury necessarily adopted the correct interpretation. VP contends that MAC's interpretation of ''reciprocating slide plates'' is an attempt to read a limitation from the preferred embodiment into the claims and is not supported by either the specification or the prosecution history.

We agree with VP that the court's failure to interpret the disputed claim term was harmless error.[2] The jury's verdict was necessarily premised on a conclusion that the claim term "reciprocating slide plates" is not limited to plates which move along purely linear paths. Because this interpretation is correct, we will not disturb the jury's verdict, even though the court erred in failing to interpret the disputed language, either pre-*Markman* before jury deliberation or post-*Markman,* after a post-trial motion. *See B. Braun Med., Inc. v. Abbott Lab.*, 124 F.3d 1419, 1423, 43 USPQ2d 1896, 1898-99 (Fed. Cir. 1997) ("As to claim interpretation, we note that this case was submitted to the jury in 1994, before this court's opinion in *Markman* . . . . Because we agree with the jury's interpretation in this case, any error that the district court may have committed is harmless.").

A determination of infringement requires a two step analysis. "First, the claim must be properly construed to determine its scope and meaning. Second, the claim as properly construed must be compared to the accused device or process." *Carroll Touch, Inc. v. Electro Mechanical Sys., Inc.*, 15 F.3d 1573, 1576, 27 USPQ2d 1836, 1839 (Fed. Cir. 1993). The first step is a question of law which we review *de novo*, the proper interpretation of a claim being based upon the claim language, the written description portion of the specification, the prosecution history, and, if necessary to aid the court's understanding of the patent, extrinsic evidence. *See Markman*, 52 F.3d at 979-81, 34 USPQ2d at 1329-31. Here, because the parties do not dispute the operational details of MAC's rotating latch devices, our analysis is limited to the interpretation of the claim language "reciprocating slide plates" and more precisely to

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[2] Because we find the court's error harmless, we need not consider whether MAC waived the issue when it failed to object to the submission of the claim construction issue to the jury.

determining whether that language is limited to plates which move linearly.

Contrary to MAC's arguments, the claims of the '005 patent do not indicate that the "side plates" must move linearly. Rather, the claim phrases "adjacent to the fixed hanger plates" and "spaced profiled cam slots including entrance portions parallel to straight slots" refer only to the stationary position of the slide plates relative to the hanger plates, not to the paths traversed by the slide plates. Also, while the claim phrase "in unison relative to the fixed hanger plates" refers to the slide plates' motion, it does so without specifying whether that motion is linear or along a curved path.

Similarly, the other intrinsic evidence relied on by MAC does not indicate that the claimed "slide plates" must move linearly. The portions of the specification on which MAC relies, col. 3, lines 29-32, and col. 1, lines 44-46, do not even include the word "reciprocating."[3] These passages only state that the dry lube bearings and their pads are useful in reducing friction when and if the slide plates move linearly; they do not require the slide plates to move linearly. MAC's reliance on the absence of a drawing describing the non-linear motion of a slide plate is similarly unsound, for it is well-settled that the device claims are not limited to devices which operate precisely as the embodiments described in detail in the patent. *See SRI Int'l v. Matsushita Elec. Corp. of Am.*, 775 F.2d 1107, 1121, 227 USPQ 577, 585 (Fed. Cir. 1985). Additionally, we note that MAC does not

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[3] These passages state, respectively, that the "bearings have attached dry lube bearing pads to minimize friction in the linear sliding movement of the slide plates on the receiver" and "[t]he slides also have dry lube elongated bearings for precision guidance with low friction during linear travel."

rely on any language in the prosecution history to support its argument that the "reciprocating" motion of the slide plates must be purely linear.

Thus, the intrinsic evidence does not require that the word "reciprocating" be interpreted differently from its ordinary meaning. *See York Prods., Inc. v. Central Tractor Farm & Family Cent.*, 99 F.3d 1568, 1572, 40 USPQ2d 1619, 1622 (Fed. Cir. 1996) ("Without an express intent to impart a novel meaning to claim terms, an inventor's claim terms take on their ordinary meaning."). That ordinary meaning was established at trial; the uncontroverted evidence, including a recognized treatise, indicated that those skilled in the mechanical arts would have understood "reciprocating" to mean motion in which "a point traverses the same path and reverses its motion at the ends of such a path." Accordingly, because neither the '005 patent nor its prosecution history uses or implies a special definition for "reciprocating," the language "reciprocating slide plates" is not limited to plates that exhibit only linear motion, as opposed to the broader, ordinary meaning of the phrase. Thus, the disputed term literally encompasses rotating motion, such as that exhibited by the MAC mechanism.

Since the jury necessarily adopted the correct meaning of this claim language, we will not disturb the judgment of infringement. We thus affirm the judgment that the '005 patent was infringed.

B. Enhanced Damages and Attorney Fees

Following the *Virginia Panel I* trial in which the jury awarded VP $1,207,534 for MAC's infringement of the '005 patent and $20,300 for MAC's infringement of the '530 patent, VP moved for a trebling of damages under 35 U.S.C. § 284 (1994) and for attorney fees under 35 U.S.C. § 285 (1994). Upon consideration of several of the factors

listed in *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-827, 23 USPQ2d 1426, 1435-36 (Fed. Cir. 1992), the district court enhanced the damages award against MAC by ten percent. *Virginia Panel I*, 887 F. Supp. at 884-85. The court also concluded that "[t]he circumstances which mitigate against a large enhancement of damages also demonstrate why this is not an exceptional case up to this point" and accordingly refused to award attorney fees. *Id.* at 885. Following the *Virginia Panel II* trial, the court denied VP's renewed motion for treble damages and attorney fees, noting only that its earlier decision "is fortified by [MAC's] successful prosecution of its remaining counterclaims and defenses on the patent misuse, monopolization and attempted monopolization claims at the second phase of the trial." *Virginia Panel II*, 1996 WL 335381, at *1. As discussed below, we will reverse the decisions that VP engaged in patent misuse and violated the antitrust laws. Accordingly, since damages will be reinstated, we must independently evaluate the decisions to enhance damages against MAC by only ten percent and not to award attorney fees.

VP argues that the district court abused its discretion by disregarding the jury's finding of willfulness, citing *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 38 USPQ2d 1397 (Fed. Cir. 1996), and by relying on irrelevant factors such as MAC's conduct in litigation and its financial condition. MAC responds that the jury's finding of willfulness does not mandate that damages be enhanced or that attorney fees be awarded. MAC also emphasizes that the district court exercised its discretion by considering the factors laid out in *Read*, and did not expressly reject the jury's finding of willfulness, as in *Jurgens*. We agree with MAC; the district court did not abuse its discretion in deciding to enhance the infringement damages by only ten percent, nor did it abuse its discretion in refusing to award attorney fees relating to the infringment suit.

Following a jury's determination that an infringement was willful, the extent of enhancement of damages is committed to the discretion of the trial court. 35 U.S.C. § 284 ("[T]he court *may* increase the damages up to three times the amount found or assessed."); *Read,* 970 F.2d at 826, 23 USPQ2d at 1435; *see also Graco, Inc. v. Binks Mfg. Co.,* 60 F.3d 785, 792, 35 USPQ2d at 1255, 1260 (Fed. Cir. 1995) ("Once a finding of willfulness has been made, the decision to enhance damages, up to three times the amount found, is discretionary."). Accordingly, we review the district court's decision enhance damages by only ten percent for an abuse of discretion; the court's decision "will stand unless it was based on a clear error of fact, an error of law, or a manifest error of judgment." *National Presto Indus., Inc. v. West Bend Co.,* 76 F.3d 1185, 1193, 37 USPQ2d 1685, 1691 (Fed. Cir. 1996).

"[W]hen a trial judge denies attorney fees in spite of a finding of willful infringement, the court must explain why the case is *not* 'exceptional' within the meaning of the statute." *Modine Mfg. Co. v. Allen Group, Inc.,* 917 F.2d 538, 543, 16 USPQ2d 1622, 1626 (Fed. Cir. 1990) (citing *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.,* 781 F.2d 198, 201, 228 USPQ 367, 369 (Fed Cir. 1986)). Where such an explanation is provided, we review a court's decision not to award attorney fees for an abuse of discretion. *See National Presto,* 76 F.3d at 1197, 37 USPQ2d at 1693 ("The trial judge's discretion in the award of attorney fees permits the judge to weigh intangible as well as tangible factors: the degree of culpability of the infringer, the closeness of the question, litigation behavior, and any other factors whereby fee shifting may serve as an instrument of justice.").

The court found several facts, none of which is clearly erroneous, which justified enhancing damages by only ten percent and not awarding attorney fees, even in light of the jury's finding of willfulness. Specifically, the court first

found that the factors considered by this court in *Bott v. Four Star Corp.*, 807 F.2d 1567, 1571, 1 USPQ2d 1210, 1213 (Fed. Cir. 1986) favored MAC: (1) though willful, MAC's copying was "only" recklessly indifferent as opposed to deliberate,[4] (2) MAC conducted a marginally sufficient investigation of the asserted patents, albeit upon incomplete information, and (3) MAC's behavior as a party to the litigation was not unacceptable. *See* 887 F.Supp. at 885. The court also emphasized two factors deemed relevant in *Read,* 970 F.2d at 827-28, 23 USPQ2d at 1435-36, stating that: (4) "many of the issues in this case were close questions," and (5) "a large enhancement of damages could drive MAC out of business." 887 F.Supp. at 885. These factors, most notably the closeness of the case, justify the court's decision not to award attorney fees.

VP's reliance on *Jurgens* is misplaced. Unlike in *Jurgens,* the district court's factual findings are not inconsistent with the jury's finding of willfulness. The district court explicitly accepted the jury's finding of willfulness and carefully considered other "factors that are mitigating or ameliorating." *Read*, 970 F.2d at 826, 23 USPQ2d at 1435. As our case law makes clear, the consideration of such other factors is not necessarily reversible error.

Accordingly, we conclude that the district court's explanation for enhancing damages by only ten percent pursuant to § 284 was both reasonable and clearly expressed, as was its explanation for denying VP's motion for attorney fees under §285. Because we discern no clear error in the court's factual findings and no abuse of discretion in its evaluation and

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[4] As we have observed, " '[w]illfulness' in infringement, as in life, is not an all-or-nothing trait, but one of degree. It recognizes that infringement may range from unknowing, or accidental, to deliberate, or reckless, disregard of a patentee's legal rights." *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1125, 2 USPQ2d 1915, 1919 (Fed. Cir. 1987).

weighing of the relevant factors, the court's decisions to enhance damages by only ten percent and not to award attorney fees are affirmed.[5]

C. Patent Misuse

In the *Virginia Panel II* trial, MAC advanced four basic allegations of patent misuse: that VP (1) sent infringement notices, including requests to cease and desist infringing activities, to government contractors without informing those contractors of the affirmative defense provided by 28 U.S.C. § 1498 (1994),[6] (2) threatened to void its warranties on ITAs that were used with non-VP components, (3) proposed to ASCOR a licensing agreement conditioned on ASCOR's purchase of unpatented products, and (4) explicitly threatened to enforce its '005 patent against ASCOR and GDE Systems, even though those companies were government contractors subject to § 1498. At the close of the *Virginia Panel II* trial, the jury found that VP had misused its patents, including the '005 patent. In its post-trial order, the district court refused to set aside the jury verdict on VP's renewed motion for judgment as a matter of law (JMOL),

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[5] The parties agree that the district court inadvertently omitted from its final order the $20,300 in damages, plus a ten percent enhancement, for infringement of the '530 patent. In lieu of a remand, we will modify the final judgment pursuant to our authority under 28 U.S.C. § 2106 (1994) to include an additional $22,330 award against MAC.

[6] Section 1498 provides, in relevant part:

> Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license . . . the owner's remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

28 U.S.C. § 1498(a) (1994).

concluding, *inter alia*, that "there was evidence which, if believed by a reasonable jury, is sufficient to support a jury verdict on any of the four allegations [of misuse] advanced by [MAC]." *Virginia Panel II*, 1996 WL 335381, at *4. Specifically, the court pointed to VP's threats of suit implicit in the infringement letters and explicitly made to a GDE Systems representative, VP's threats to void express warranties, and the licensing proposal made to ASCOR. *Id.* Accordingly, the district court set aside the patent infringement damages it had earlier awarded to VP. *Id.* at *13.

VP argues that as a matter of law its conduct does not amount to patent misuse. It asserts that the infringement notices and threats of suit were proper because they were based on the good faith belief that its patents were being infringed and that those to whom it sent notices were not totally free from liability by virtue of § 1498. It also asserts that its other conduct cannot be characterized as patent misuse because none of it amounts to an attempt to extend the scope of its patents. MAC responds that VP's attempts to extend the effective scope of its patent rights were manifest in its concerted efforts to dominate the ATE market and accordingly that substantial evidence supports the jury verdict of misuse.

We agree with VP that none of the conduct on which MAC relied can constitute patent misuse as a matter of law. When reviewing a jury finding on an equitable issue normally reserved for the court such as patent misuse, *see Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 490-91, 52 USPQ 30, 32-33 (1942), we will first presume that the jury resolved the underlying factual disputes in favor of the verdict winner and leave those presumed findings undisturbed if they are supported by substantial evidence. Then in a manner analogous to our review of legal conclusions, we examine the conclusion *de novo* to see whether it is correct in light of the jury fact findings. *See Jurgens v. McKasy*,

927 F.2d 1552, 1557, 18 USPQ2d 1031, 1035 (Fed. Cir. 1991). We conclude here that the jury's presumed fact findings cannot support its conclusion of patent misuse.

Patent misuse is an affirmative defense to an accusation of patent infringement, the successful assertion of which "requires that the alleged infringer show that the patentee has impermissibly broadened the 'physical or temporal scope' of the patent grant with anticompetitive effect." *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001, 228 USPQ 562, 566 (Fed. Cir. 1986) (quoting *Blonder-Tongue Lab., Inc. v. University of Ill. Found.*, 402 U.S. 313, 343, 169 USPQ 513, 525 (1971)); *see also USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 510, 216 USPQ 959, 963 (7th Cir. 1982) ("[I]n application, the doctrine [of patent misuse] has largely been confined to a handful of specific practices by which the patentee seemed to be trying to 'extend' his patent grant beyond its statutory limits.").

The courts have identified certain specific practices as constituting *per se* patent misuse, including so-called "tying" arrangements in which a patentee conditions a license under the patent on the purchase of a separable, staple good, *see, e.g., Morton Salt Co.*, 314 U.S. at 491, 52 USPQ 30, 33, and arrangements in which a patentee effectively extends the term of its patent by requiring post-expiration royalties, *see, e.g., Brulotte v. Thys Co.*, 379 U.S. 29, 33, 143 USPQ 264, 266 (1964). Congress, however, has established that other specific practices may not support a finding of patent misuse. *See* 35 U.S.C. § 271(d) (1994); *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 202, 206 USPQ 385, 399 (1980) (construing earlier version of § 271(d)). A 1988 amendment to § 271(d) provides that, *inter alia,* in the absence of market power, even a tying arrangement does not constitute patent misuse. *See* 35 U.S.C. § 271(d)(5) (1994) (added by Pub. L. No. 100-703, § 201, 102 Stat. 4676 (1988)).

When a practice alleged to constitute patent misuse is neither *per se* patent misuse nor specifically excluded from a misuse analysis by § 271(d), a court must determine if that practice is "reasonably within the patent grant, *i.e.*, that it relates to subject matter within the scope of the patent claims." *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708, 24 USPQ2d 1173, 1179-80 (Fed. Cir. 1992). If so, the practice does not have the effect of broadening the scope of the patent claims and thus cannot constitute patent misuse. *Id.*, 24 USPQ2d at 1180. If, on the other hand, the practice has the effect of extending the patentee's statutory rights and does so with an anti-competitive effect, that practice must then be analyzed in accordance with the "rule of reason." *Id.* Under the rule of reason, "the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint's history, nature, and effect." *State Oil Co. v. Kahn*, 118 S. Ct. 275, 279 (1997) (citing *Arizona v. Maricopa County Med. Soc.*, 457 U.S. 332, 343 & n.13 (1982)).

VP's practices did not constitute patent misuse because they did not broaden the scope of its patent, either in terms of covered subject matter or temporally. That VP sent infringement notices to various government contractors, even notices that threatened suit and injunctions, did not indicate that VP attempted to broaden its patent monopoly. As we stated in *Mallinckrodt*, 976 F.2d at 709, 24 USPQ2d at 1180: "A patentee that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers." Accordingly, a patentee must be allowed to make its rights known to a potential infringer so that the latter can determine whether to cease its allegedly infringing activities, negotiate a license if one is offered, or

decide to run the risk of liability and/or the imposition of an injunction. *See Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 877, 228 USPQ 90, 101 (Fed. Cir. 1985) (noting "the public policy of erecting a barrier against thwarting patentees from asserting legitimate patent rights"). That applies even to warning a company like MAC, that, at least in its role as a supplier to the United States, could not be subject to liability or enjoined from practicing the claimed invention.

While section 1498 clearly restricts a patentee's remedies against government contractors' infringing acts, it does not make those acts non-infringing and it certainly does not prohibit the sending of infringement notices to government contractors. The statute only provides an affirmative defense for applicable government contractors by establishing that, as to goods "used or manufactured by or for the United States," the contractor will not be liable for its infringing acts. 28 U.S.C. § 1498; *see also Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 554, 16 USPQ2d 1587, 11594 (Fed. Cir. 1990) (noting that section 1498 is applied as "a codification of a defense").

Moreover, as VP accurately points out, the Federal Acquisition Regulations (FAR) explicitly contemplate that patentees will send infringement notices directly to contractors. The FAR provisions, which impose contractual obligations on government contractors, instruct contractors to notify their respective Contracting Officers "promptly and in reasonable detail [of] each notice or claim of patent . . . infringement based on the performance of [the] contract." FAR § 52.227-2 (1996); *see also* 48 C.F.R. §§ 27.201-1 and 27.201-2 (1996).[7] The government has an interest in

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[7] Also, 48 C.F.R. § 27.203 (1996) provides for the Contracting Officer to determine if and under what conditions the contractor shall indem-

being notified of its potential liability. As reflected in the cited FAR provision, the contractor may be in the better position to receive the infringement notice and in turn notify the government. Consistent with the FAR, and based on its good faith belief that the government contractors were infringing its patent rights, VP was entitled to have sent such notices to government contractors that it had identified as users and sellers of MAC's infringing ITA/receiver interfaces.

Furthermore, even if the jury concluded that VP attempted to extend the remedial scope of its patents by sending infringement notices where no injunction could be obtained, such conduct did not violate the rule of reason. VP could not have been certain that the allegedly infringing devices were only to be used by the United States government. As VP points out, the record indicates that the allegedly infringing devices were typically used by government contractors for their own purposes and were often sold to foreign governments. Such devices were not subject to the provisions of section 1498. Only after the contractors received VP's notices of infringement could those contractors adequately evaluate whether they were immune from suit or would be subject to liability based on a contractual obligation to the government.

Accordingly, VP's threats to seek injunctions against MAC's customers, whether in the form of an infringement

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nify the United States against liability for acts of patent infringement. Where the contract provides for such indemnification, the contractor would be poorly served by a rule prohibiting the sending of notices to government contractors. Moreover, a patentee cannot reasonably be expected to know if a particular infringing contractor will indemnify the government.

notice or in direct negotiations,[8] did not constitute patent misuse because VP had a good faith belief that those it notified were using a device that infringed the '005 patent. *See* 35 U.S.C. § 271(d)(3) (''No patent owner otherwise entitled to relief from infringement or contributory infringement of a patent shall be . . . deemed guilty of misuse . . . by reason of his having . . . sought to enforce his patent rights against infringement or contributory infringement.'').

VP also asserts that its threats to void or limit warranties did not constitute patent misuse, much less anti-competitive conduct. We agree. No case law or statute supports the decision of the district court. Such threats do not constitute tying or *per se* misuse. First of all, voiding a warranty, or threatening to do so, does not constitute use of a patent to control unpatented products. Voiding a warranty is not use of a patent at all. In addition, voiding a warranty on a product already sold, while possibly a breach of warranty, cannot be a tying arrangement because the purchaser is not deciding whether to buy a product. As for future sales, the threat is not to refuse to license, but only to limit a warranty, which is a matter of contract law between buyer and seller having no misuse implications. *See, e.g., Northern Pac. Ry. v. United States*, 356 U.S. 1, 5-6 (1958) (''For our purposes a tying arrangement may be defined as an agreement by a party to sell one product but only on the condition that the buyer also *purchases* a different (or tied) product, or at least agrees that he will not *purchase* that product from any other supplier.'') (emphasis added); *Stephen Jay Photography,*

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[8] The district court referred to VP's ''meetings with ASCOR and GDE Systems during which meetings [VP] allegedly threatened to enforce by suit the '005 patent,'' in refusing to overturn the jury's finding of misuse. *Virginia Panel II*, 1997 WL 335381, at *4. These direct threats no more constitute patent misuse than do the threats of suit in the aforementioned infringement notices.

Ltd. v. Olan Mills, Inc., 903 F.2d 988, 991 (4th Cir. 1990) (stating that for an unlawful tying to exist, "the seller must coerce the buyer into *purchasing* the tied product") (emphasis added). *See also Marts v. Xerox, Inc.*, 77 F.3d 1109, 1111 (8th Cir. 1996) (rejecting a tying argument based on warranty service as the tying product and copying cartridges as the tied product).

Moreover, threats to limit or void warranties presumably reflect a patentee's unwillingness to extend free repair or replacement services to usage of its product that it cannot control. Here, VP introduced ample unrefuted evidence that VP adopted its warranty policy based on the legitimate business purpose of protecting the integrity of its ITAs. Even MAC's president testified that damage may result when ATE components from different suppliers are mixed, and that determining which component caused the damage would be virtually impossible. Accordingly, VP's threats to void or limit the warranties on its ITAs also met the rule of reason test and thus were not acts of patent misuse.

Finally, VP's proposal to ASCOR was not a consummated tying arrangement and for that reason was not *per se* patent misuse. In contrast to *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 161 USPQ 577 (1969) and the other tying cases on which MAC relies, VP and ASCOR never entered into any license agreement that required ASCOR to purchase unpatented, staple goods. *See* 35 U.S.C. § 271(d)(5) (by implication, limiting tying arrangements to the conditioning of an actual license or sale of the patented product). Furthermore, because VP, on the advice of counsel, voluntarily and unilaterally revoked the proposal to link the license to the purchase of unpatented items, VP's activities did not extend the scope of its patent rights. Accordingly, we conclude that VP's truncated negotiations with ASCOR did not constitute patent misuse.

In sum, VP's allegedly predatory practices did not constitute patent misuse because they did not extend VP's patent rights nor were they unreasonable competitive practices. Accordingly, such practices were legally insufficient to render the '005 patent unenforceable. The jury verdict that VP misused the '005 patent is therefore reversed and the district court is instructed to award damages to VP based on the adjudicated acts of infringement.

D. Antitrust

At the close of the *Virginia Panel II* trial, the jury also found that VP had violated section 2 of the Sherman Act by monopolizing and attempting to monopolize the market for high-performance ATE general purpose interface devices, consisting of a receiver and an ITA, which the jury defined as the relevant market. The jury awarded MAC $152,222 in damages. In its post-trial order, the district court trebled the damages and refused to set aside the jury verdict on VP's renewed motion for judgment as a matter of law (JMOL). The district court concluded, *inter alia*, that "there was ample evidence from which a reasonable jury could conclude that [MAC] suffered antitrust injury," noting that MAC "arrived at its actual lost profits by calculating the actual amount of lost sales over a nine-quarter period during which [MAC's] market share diminished in the relevant product market." The court also observed that it was "not convinced that the jury failed to consider the evidence that suggested that [MAC]'s loss of market share in the relevant product market was attributable to legitimate competitive factors," including the "effect of the 1988 CASS contract on market share and that [VP] increased its sales force threefold." 1996 WL 335381, at *7 & n.4.

On appeal, VP argues, *inter alia*, that MAC failed to prove that any of its losses were attributable to illegal or anti-competitive activity, *i.e.*, so-called "antitrust injury."

Specifically, VP argues that MAC's loss in market share is attributable to causes other than VP's infringement notices and threats to void warranties and, in any event, those activities are not illegal or anti-competitive. MAC responds that VP's activities were indeed anti-competitive, in violation of the antitrust laws, and that substantial evidence supports the jury's finding that VP's illegal activities caused MAC's injuries.

We agree with VP that MAC has not proven antitrust injury. We review a district court's denial of a post-trial motion for JMOL *de novo* by reapplying the standard applicable at the district court. Thus, this court

> must determine whether there exists evidence of record upon which a jury might properly have returned a verdict in [the non-movant's] favor when *the correct legal standard is applied*. If there is not, [the movant] was entitled to have the question removed from the jury and decided as a matter of law.

Markman v. Westview Instruments, Inc., 52 F.3d 967, 975, 34 USPQ2d 1321, 1326 (Fed. Cir. 1995) (in banc), *aff'd*, 116 S. Ct. 1384, 38 USPQ2d 1461 (1996) (quoting *Jamesbury Corp. v. Litton Indus. Prods., Inc.*, 756 F.2d 1556, 1560, 225 USPQ 253, 257 (Fed. Cir. 1985)); *see also Garraghty v. Jordan*, 830 F.2d 1295, 1302 (4th Cir. 1987) (''[W]hen the court finds no [substantial evidence supporting liability] a directed verdict is proper.'').

When reviewing a district court's judgment involving federal antitrust law, we apply the law of the regional circuit in which that district court sits. *See Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 875, 228 USPQ 90, 99 (Fed. Cir. 1985) (''We must approach a federal antitrust claim as would a court of appeals in the circuit of the district court whose judgment we review.''). Accordingly, we apply Fourth Circuit antitrust law, which provides ''that the anti-

trust plaintiff must demonstrate a causal connection between the defendant's violation and the damages claimed." *Metrix Warehouse, Inc. v. Daimler-Benz Aktiengesellschaft*, 828 F.2d 1033, 1043-44 (4th Cir. 1988); *see also Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 489 (1976) ("Plaintiffs must prove *antitrust* injury, which is to say injury of the type that antitrust laws were intended to prevent and that flows from that which makes defendants' acts unlawful."); *Allegheny Pepsi-Cola Bottling Co. v. Mid-Atlantic Coca-Cola Bottling Co.*, 690 F.2d 411, 414-15 (4th Cir. 1982) (affirming judgment of lack of antitrust violation on ground that Allegheny "failed to prove that it suffered any antitrust injury" because it "failed to show what part, if any, of the increase in discounts was attributable to Mid-Atlantic's alleged predatory pricing").

We note first that violation of the antitrust laws, in this case section 2 of the Sherman Antitrust Act, 15 U.S.C. § 2 (1994), requires more exacting proof than suffices to demonstrate patent misuse. For example, violation of the antitrust laws always requires an intent to monopolize, market power in a defined relevant market (which may be broader than that defined by the patent), and damages attributable to the conduct asserted to be in violation of the antitrust laws. *See, e.g., Zenith Radio Corp.*, 395 U.S. at 140-41, 161 USPQ 577, 593. At the very least, we agree with VP that substantial record evidence does not support a finding that MAC's alleged losses were attributable to conduct forbidden by the antitrust laws. MAC's principal evidence regarding causation was a graph of the parties' respective shares of the high-performance ATE general purpose interface market and the testimony of Mr. Daniel Friedman and Dr. William Wood, interpreting that graph. Both explained that the graph exhibited MAC's steady loss of market share, which began in the third quarter of 1992 and continued through the third quarter of 1994, and attrib-

uted that loss to VP's contemporaneous sending of infringement notices and VP's "product advisories" regarding its warranties. However, as we have held, *supra*, the conduct relied on by Friedman and Wood was not legally improper. Accordingly, the evidence on which MAC relies fails to "demonstrate a causal connection between the defendant's violation and the damages claimed." *Metrix*, 828 F.2d at 1044. Because there were no violations by VP in this case, Friedman and Wood's analyses cannot support imposing antitrust damages against VP.[9]

Moreover, the evidence of record incontestably points to an alternate cause of MAC's loss in market share, *viz.*, VP's sales under the CASS contract. Based on the evidence of this alternative cause of MAC's loss of market share, the jury could not reasonably have relied on Friedman and Wood's analysis. *See, e.g., Amerinet, Inc. v. Xerox Corp.*, 972 F.2d 1483, 1494-95 (8th Cir. 1992) ("When a plaintiff improperly attributes all losses to a defendant's illegal acts, *despite the presence of significant other factors*, the evidence does not permit a jury to make a reasonable and principled estimate of the amount of damage. This is precisely the type of speculation or guesswork not permitted for antitrust jury verdicts.") (emphasis added) (quoting *MCI Communications Corp. v. American Telephone & Telegraph Co.*, 708 F.2d 1081, 1162 (7th Cir. 1983) (internal quotation omitted)). Both Friedman and Wood conceded that they did not consider the effect of VP's sales to GE/Martin Marietta under the CASS contract because, as Friedman stated, that contract was

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[9] MAC also presented the testimony of (1) its president who stated that VP's warranty policies led MAC customers to express concern over using MAC components and (2) *one* customer who actually returned an ITA purchased from MAC as a result of VP's warranty policies. In light of our analysis of the principal evidence, we deem this anecdotal evidence to be insubstantial and insignificant.

signed "quite some time" before MAC's relevant loss in market share. However, when VP's sales under the CASS contract (the bulk of which occurred when GE/Martin Marietta exercised its contractual option in 1992) are excluded from the analysis of the relevant market, MAC's apparent market share actually increased over the nine-quarter period at issue. Thus, the correspondence between VP's increased sales under the CASS contract and MAC's loss of market share is readily apparent, even though the contract was awarded years before MAC lost market share. Because no substantial evidence supports the antitrust verdict, VP's motion for JMOL should have been granted.

The court in effect attempted to bootstrap its misuse analysis to support the jury's attempted monopolization verdict, and specifically to support the jury's finding that VP had the requisite specific intent to monopolize. In denying VP's motion to set aside the antitrust verdict, the court concluded that

> the jury could have inferred that [VP] possessed anti-competitive intent by engaging in the conduct constituting patent misuse: the sending of threatening infringement notices; the threatening to void warranties; and the exploiting of its patented products to achieve increased sales of its unpatented products. Consequently, the court finds that a reasonable jury could have concluded that [VP] formed the specific intent to monopolize the relevant product market because there were questions regarding the quality of [VP] products and because [VP] engaged in specified conduct shown to constitute patent misuse from which conduct intent to monopolize may have been reasonably inferred.

Virginia Panel II, 1996 WL 335381, at *7. However, conduct that is insufficient to support a misuse defense

cannot support an otherwise flawed antitrust judgment. Accordingly, because we determine that the conduct underlying the allegations of misuse does not amount to patent misuse, the same conduct cannot support a judgment that VP's conduct violated the Sherman Act.

The antitrust laws do not preclude patentees from putting suspected infringers on notice of suspected infringement. *See Mallinckrodt*, 976 F.2d at 709, 24 USPQ2d at 1180 ("A patentee that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers."). Rather, they are designed to promote competition to the advantage of consumers, not for the protection of competitors. *See Brunswick Corp.*, 429 U.S. at 488 ("The antitrust laws, however, were enacted for 'the protection of competition, not competitors.' ") (quoting *Brown Shoe Co. v. United States*, 370 U.S. 294, 320 (1962)). Thus, a patentee may lawfully police a market that is effectively defined by its patent.[10] Similarly, the antitrust laws are not designed to penalize an individual who lawfully obtains a government procurement contract, even if the award of that contract dramatically and necessarily altered a two-supplier market. While the district court and the jury viewed VP's aggressive conduct as anti-competitive and as the cause of MAC's market losses, VP's enforcement of the patent rights was not unlawful.

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[10] Although the relevant product market was not expressly defined to include only products covered by the '005 patent, both parties emphasized that the findings of monopolization and attempted monopolization were premised exclusively on MAC's lost sales of receivers and ITAs adjudged to infringe the '005 patent. Accordingly, the '005 patent effectively defined the relevant product market for purposes of MAC's alleged antitrust injury.

Accordingly, we reverse the judgment that VP violated the Sherman Act through monopolization and attempted monopolization of the high-performance ATE general purpose interface market.

CONCLUSION

The district court did not err in refusing to grant MAC's motion for a new infringement trial because its error in submitting the construction of the claim term "reciprocating slide plates" to the jury was harmless. Also, because the district court neither abused its discretion nor disregarded the jury's finding of willfulness in enhancing damages by only ten percent or in refusing to award attorney fees, we affirm those decisions. However, because the district court should have granted VP's motion for JMOL on the ground that VP's conduct did not extend the scope of the patent or cause MAC's loss of market share, we reverse the decisions that VP engaged in patent misuse and violated the antitrust laws. We modify the judgment to correct the district court's failure to assess damages for the willful infringement of the '530 patent.

COSTS

No costs.

AFFIRMED-IN-PART, REVERSED-IN-PART, and MODIFIED

APPENDIX B

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF VIRGINIA
HARRISONBURG DIVISION

CIVIL ACTION NO. 93-0006-H

VIRGINIA PANEL CORPORATION,

Plaintiff,

v.

MAC PANEL COMPANY,

Defendant.

[stamp—Clerk's Office, U.S. Dist. Ct.; at Harrisonburg, Va.;
FILED JUN 17 1996; Morgan E. Scott, Jr., Clerk;
By: /s/ B. Hensley; Deputy Clerk]

FINAL ORDER OF JUDGMENT
Judge James H. Michael, Jr.

This Order follows the Memorandum Opinion and Order of this court of 29 May 1996, so as to enter final judgment on the various holdings of the Memorandum Opinion and Order aforesaid. On this day it is

ADJUDGED AND ORDERED

as follows:

1. Pursuant to paragraph seven (7) of the May 29, 1996 Order, a judgment in the amount of $145,506 shall be, and it hereby is, entered against defendant on plaintiff's Motion for Attorney Fees and Costs for Defendant Mac Panel Company's False Advertising in Violation of Virginia Code.

2. Pursuant to paragraph eight (8) of the Order, a judgment directing issuance of a permanent injunction, with the terms of this injunction to be the same as those of the preliminary injunction heretofore entered, shall be, and it hereby is, entered against defendant on plaintiff's Motion for Entry of Permanent Injunction on Patent Infringement Claims.

3. Pursuant to paragraph (12) of the Order, a judgment in the amount of $456,666 shall be, and it hereby is, entered against plaintiff on defendant's Motion for Award of Treble Damages on the Sherman Act Section 2 Claims.

4. Further, pursuant to paragraph (12) of the Order, a judgment against plaintiff in the amount of $913,332 for attorneys' fees shall be, and it hereby is, entered on defendant's Motion for Attorneys' Fees on the Sherman Act Section 2 Claims.

5. Further, pursuant to paragraph (12) of the Order, a judgment against plaintiff in the amount of $157,928 for costs shall be, and it hereby is, entered on defendant's "Motion for Award of Treble Damages and Attorneys' Fees on the Sherman Act Section 2 Claims."

The Clerk of the Court is hereby directed to send a certified copy of this Order to all counsel of record.

ENTERED: /s/ James H. Michael, Jr.
Senior United States District Judge
June 17, 1996
Date

A TRUE COPY, TESTE:
MORGAN E. SCOTT, JR., CLERK
BY: /s/ B. Hensley
DEPUTY CLERK

APPENDIX C

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF VIRGINIA
HARRISONBURG DIVISION

CIVIL ACTION NO. 93-0006-H

VIRGINIA PANEL CORPORATION,

Plaintiff,

v.

MAC PANEL COMPANY,

Defendant.

[stamp—Clerk's Office, U.S. Dist. Ct.; at Harrisonburg, Va.;
FILED MAY 29 1996; Morgan E. Scott, Jr., Clerk;
By: /s/ B. Hensley; Deputy Clerk]

ORDER

Judge James H. Michael, Jr.

For the reasons stated in the accompanying Memorandum Opinion, it is this day

ADJUDGED AND ORDERED

as follows:

(1) The plaintiff's "Renewed Motion for Treble Damages, Attorneys Fees and Costs for Defendant Mac Panel Company's Willful Infringement of the " '005" Patent" shall be, and it hereby is, OVERRULED.

(2) The plaintiff's "Renewed Motion for Treble Damages, Attorney Fees and Costs for Defendant Mac Panel

Company's Willful Infringement of the " '530" Patent" shall be, and it hereby is, OVERRULED.

(3) The plaintiff's "Renewed Motion for Judgment as a Matter of Law, or in the Alternative for a New Trial on Defendant Mac Panel Company's Counterclaim for Monopolization" shall be, and it hereby is, OVERRULED.

(4) The plaintiff's "Renewed Motion for Judgment as a Matter of Law, or in the Alternative for New Trial on Defendant Mac Panel Company's Counterclaim for Attempted Monopolization" shall be, and it hereby is, OVERRULED.

(5) The plaintiff's "Renewed Motion for Judgment as a Matter of Law on the Defense of Patent Misuse" shall be, and it hereby is, OVERRULED.

(6) The plaintiff's "Motion for Judgment as a Matter of Law, or in the Alternative for New Trial on Virginia Panel's Lanham Act Claim" shall be, and it hereby is, OVERRULED.

(7) The plaintiff's "Motion for Attorney Fees and Costs for Defendant Mac Panel Company's False Advertising in Violation of the Virginia Code" shall be, and it hereby is, GRANTED inasmuch as attorneys' fees are awarded in the amount of $145,506, and OVERRULED with respect to costs.

(8) The plaintiff's "Motion for Entry of Permanent Injunction on Patent Infringement Claims" shall be, and it hereby is, GRANTED.

(9) The defendant's "Renewed Motion for Judgment as a Matter of Law on Contributory Infringement and Willful Infringement, and in the Alternative for New Trial" shall be, and it hereby is, OVERRULED.

(10) The defendant's "Motion for Decision by the Court of the Issue of Laches, or in the Alternative for New Trial" shall be, and it hereby is, OVERRULED.

(11) The defendant's "Motion for a Partial New Trial on the Issue of Damages Predicated upon Virginia Panel Corporation's Anti-Competitive Conduct in the Past" shall be, and it hereby is, OVERRULED.

(12) The defendant's "Motion for Award of Treble Damages and Attorneys Fees on the Sherman Act Section 2 Claims" shall be, and it hereby is, GRANTED. The damages award shall be, and hereby is, trebled and affixed in the amount of $456,666. The award of attorneys' fees shall be, and it hereby is, affixed in the amount of $913,332. The award of costs shall be, and it hereby is, affixed in the amount of $157,928.

(13) The defendant's "Motion for Judgment as a Matter of Law on Virginia False Advertising Statute Claim, or in the Alternative for New Trial on the Virginia False Advertising Statute Claim" shall be, and it hereby is, OVERRULED.

(14) The defendant's "Renewed Motion for Judgment as a Matter of Law on Virginia Panel Corporation's False Advertising Claim, and, in the Alternative for New Trial on the Virginia False Advertising Claim" shall be, and it hereby is, OVERRULED.

(15) The defendant's "Motion for a Partial New Trial on the Issue of Virginia Panel Corporation's Misuse of U.S. Patent No. 4,655,530" shall be, and it hereby is, OVERRULED.

(16) The defendant's "Motion to Dismiss Patent Infringement Claims of Virginia Panel, and to Set Aside Patent Infringement Damages Based on Jury Verdict Finding Patent Misuse" shall be, and it hereby is, OVERRULED

with respect to the dismissal of the infringement claims, and shall be, and hereby is, GRANTED, with respect to setting aside the patent infringement damages.

(17) The defendant's "Motion to Vacate Temporary Injunction and Enforce Surety's Liability on Bond shall be, and it hereby is, OVERRULED, and the temporary injunction shall be, and it hereby is, made permanent.

(18) The defendant's "Motion for Entry of Judgment" shall be, and it hereby is, GRANTED.

(19) The instant action, Civil Action Numbered 93-0006-H, shall be, and it hereby dismissed with prejudice and stricken from the active docket of this court.

The Clerk of the Court is hereby directed to send a certified copy of this Order and the accompanying Memorandum Opinion to all counsel of record.

ENTERED: /s/ James H. Michael, Jr.
Senior United States District Judge
May 29, 1996
Date

A TRUE COPY, TESTE:
MORGAN E. SCOTT, JR., CLERK
BY: /s/ B. Hensley
DEPUTY CLERK

APPENDIX D

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF VIRGINIA
HARRISONBURG DIVISION

CIVIL ACTION NO. 93-0006-H

VIRGINIA PANEL CORPORATION,

Plaintiff,

v.

MAC PANEL COMPANY,

Defendant.

[stamp—Clerk's Office, U.S. Dist. Ct.; at Harrisonburg, Va.;
FILED MAY 29 1996; Morgan E. Scott, Jr., Clerk;
By: /s/ B. Hensley; Deputy Clerk]

MEMORANDUM OPINION
Judge James H. Michael, Jr.

This matter comes before the court upon eighteen post-trial motions filed by both parties to the instant civil action. The plaintiff in this case, Virginia Panel Corporation (''VPC''), filed a complaint and amended complaint against the defendant, Mac Panel Company (''MPC''), for patent infringement and false advertising. MPC responded with several counterclaims and affirmative defenses, specifically patent misuse and anti-competitive behavior in violation of Section 2 of the so-called Sherman Antitrust Act. The court bifurcated the trial into two phases: 1) patent infringement issues; and 2) patent misuse, anti-competitive behavior, and false advertising issues. From February 21 to March 10,

1995, this court conducted a jury trial of the patent infringement phase of this case in which the jury found that MPC had willfully infringed two of VPC'a patents — U.S. Patent Numbered 4,329,005 [hereinafter ''the '005 patent''] and U.S. Patent Number 4,655,530 [hereinafter ''the '530 patent]. The jury awarded VPC $1,207,534.00 for MPC infringement of the '005 patent and $20,300.00 for MPC's infringement of the '530 patent.[1]

On September 11 to 28, 1995, the court conducted the second phase of trial. In this phase, the jury concluded that VPC had misused its patents; that VPC had engaged in anti-competitive behavior as a result of such patent misuse; and that MPC had engaged in false advertising in violation of Virginia Code § 18.2-216. In this second phase, the jury awarded MPC $152,222 in untrebled damages on the anti-trust claim and awarded VPC $ 64,853 on the Virginia False Advertising claim. The parties then presented the court with the instant post-trial motions which the court must now address.

I.

VPC first renews is motion for treble damages, attorneys fees and costs for MPC's willful infringement of the '005 patent, pursuant to 35 U.S.C. § 284. The enhancement, if any, of damages is committed to the sound discretion of the trial court. *See Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992). In *Virginia Panel I*, the court considered several factors which, in this court's opinion, mitigated against a significant enhancement of damages. First, the court concluded that MPC's infringement of VPC's patents was more ''recklessly indifferent'' than it was

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[1] The court enhanced these damage awards by ten percent. *See Virginia Panel Corp. v. Mac Panel Co.*, 887 F. Supp. 880, 885-86 (W.D. Va. 1995) (''*Virginia Panel I*'').

intentional. Secondly, the court concluded that MPC's attempts to research the scope of VPC's patents was marginally sufficient, albeit based upon incomplete information. Third, the court found that MPC's behavior in the instant action was acceptable; in other words, MPC's counterclaims and defenses were neither frivolous nor asserted in bad faith. Finally, the court considered it inappropriate to levy a large enhancement which could lead to MPC's demise. Accordingly, this court affixed the enhancement of damages at ten percent.

The court will again deny VPC's motion for trebled damages. The court's conclusion is fortified by MPC's successful prosecution of its remaining counterclaims and defenses on the patent misuse, monopolization and attempted monopolization claims at the second phase of the trial.

II.

MPC has moved the court for judgment as a matter of law on contributory infringement and willful infringement and, in the alternative, for a new trial. In essence, MPC claims that VPC failed to prove the essential elements of a claim of contributory infringement and willful infringement with regard to the '005 patent. Specifically, MPC argues that VPC failed to prove that MPC had knowledge of the '005 patent prior to November 1991.

In order to prevail on a claim of contributory infringement, the plaintiff must establish:

(1) direct infringement of the patent involved by a combination incorporating a component sold by the defendant;

(2) knowledge by the defendant of the patent and that the combination infringes the patent;

(3) lack of substantial non-infringing use of the component; and,

(4) that the component is a material part of the combination.

35 U.S.C. § 274(c); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964). MPC argues that the evidence adduced at the first phase of the trial clearly demonstrated that no member of MPC management "with significant authority" had knowledge of the '005 patent until November 1991. In November 1991, a customer of MPC received an infringement notice from VPC. MPC claims that it immediately sought advise of counsel and was advised that VPC's '005 patent was invalid.

MPC discounts the fact that Troy Rector ("Rector"), a former employee of VPC and later an employee of MPC, had knowledge of the '005 patent. MPC claims that Rector had "limited" decision-making authority and had "no strategic responsibilities" within MPC. Thus, MPC argues that Rector's knowledge of the '005 patent cannot be imputed to MPC. In essence, MPC argues that there was insufficient evidence to support the jury's determination that MPC had knowledge, either actual or constructive, of VPC's '0005 patent. The court disagrees.

At the February-March 1995 trial, there was substantial evidence suggesting that MPC had constructive knowledge of VPC's '005 patent. First, Kim Stowers testified that in 1983 he informed Joe Craycroft, MPC's president, that the Mac Panel Series 96 infringed the VPC patent on the QUADRATRACK system. Secondly, there was testimony that MPC had attained knowledge of the existence of the QUADRATRACK system from one of the interface's inventors, Paul Braginetz. Additionally, there is evidence that Rector took documents and drawings related to the QUADRATRACK system from VPC to MPC when he changed employment in 1984. While the evidence suggests that Rector was not a decision-making member of manage-

ment with significant authority in 1984, the evidence demonstrates also that Rector was involved in the design of the MPC Series 06 rotating latch device. The court concludes that this evidence provides a sufficient basis for the jury's determination that MPC both contributorily and willfully infringed the '005 patent. Accordingly, the court will overrule MPC's motion for judgment as a matter of law. In addition, the court will overrule MPC's motion for a new trial on the issue of contributory infringement and willful infringement because there is no evidence that "prejudicial error had crept into the record and substantial justice has not been done." *Anthony v. Baker*, 808 F. Supp. 1523, 1525 (D. Colo. 1992).

III.

MPC moves this court for a decision by the court on the issue of laches or, in the alternative, for a new trial. The essence of MPC's motion is that the court erred in submitting this issue of laches to the jury because the defense of laches is an equitable defense to a claim of patent infringement and thus is a determination to be made by the court, not the jury. *See Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513 (10th Cir. 1987).

At the February and March 1995 trial, the jury returned a verdict finding no laches. Pursuant to Federal Rule of Civil Procedure 39(c), the trial court may submit a determination of an equitable matter to a jury upon the consent of all parties. Where there is not the consent of all parties, the court must treat the jury's findings as advisory. *Id.* The district court may accept or reject the findings of the advisory jury and must provide its own findings of fact and conclusions of law with respect to the equitable issue. *See Troy v. City of Hanson*, 756 F.2d 1000 (4th Cir. 1985); *Cox v. Babcock & Wilcox*, 471 F.2d 13 (4th Cir. 1972).

The essence of MPC's laches defense is that VPC waited nine years before informing MPC of MPC's infringement of its '005 patent. MPC claims that VPC knew as early as 1982 that MPC may have been infringing upon VPC's rotating latch devices but that VPC waited until 1991 to advise MPC of such possible infringement. The court, however, disagrees that this provides the appropriate standard for analyzing MPC's defense of laches. In *A. C. Aukerman Co. v. R. L. Chaides Constr. Co.*, 960 F.2d 1020 (Fed. Cir. 1992), the court held that in order to invoke the defense of laches, the accused infringer has the burden of proving that "(1) the plaintiff delayed filing suit for an *unreasonable* and *inexcusable* length of time from the time the plaintiff knew or reasonably should have known of its claim against the defendant, and (2) the delay operated to the prejudice or injury of the defendant." *Id.* at 1032. In this case, MPC argues that VPC's "excuses" of *de minimis* sales and "government immunity"[2] are insufficient to constitute reasonable and excusable factors justifying delay in bringing suit. The court disagrees.

The evidence at the first phase of trial suggests that VPC had knowledge only of MPC's sales to the government of devices which are alleged to infringe upon the '005 patent. The evidence suggests that VPC saw MPC's data relating to the sale of MPC's Series 06 MATE systems to the government. Even if VPC was aware of MPC's sales to the government of devices which possibly infringed upon VPC's '005 patent, VPC would not have known of its right to

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[2] As the court understands the "government immunity" defense, the patent holder is excused for not bringing suit to enforce its patent against an alleged infringer where the patent holder believes that the suspect sales are made to the government because the patent holder is barred from bringing suit against such an alleged infringer and must bring suit against the government directly.

assert a claim against MPC until after VPC learned of MPC's commercial sales of the possibly infringing devices. Thus, the court finds that VPC articulates a reasonable excuse for failing to bring suit against MPC at a significantly earlier point in time.

Furthermore, the court agrees with VPC that it was reasonable excuse for it to delay bringing suit where the commercial sales of which it had knowledge, if any, were *de minimis*. MPC argues that VPC remained under an obligation to notify MPC of alleged infringement before its claim of *de minimis* sales can operate to shield it from MPC's defense of laches. MPC, however, fails to recognize that testimony was adduced, which testimony suggested that Kim Stowers informed Joe Craycroft of possible infringement by MPC as early as 1983. Thus, the court concludes that, as a matter of law, VPC has demonstrated that its delay in bringing suit against MPC for alleged infringement of its '005 patent was both reasonable and excusable both because VPC believed that MPC's sales were to the government, which sales, standing alone, would not have provided VPC with a claim against MPC, and because VPC believed that commercial sales by MPC, if any, were *de minimis*, and VPC notified MPC of possible infringement as early as 1983.

Regarding the '530 patent, VPC claims that it did not have notice of possible infringing sales by MPC of devices until after it filed its initial complaint in the instant action. VPC claims that its prior knowledge of MPC's sales was limited to knowledge of sales to the government. VPC amended its complaint to allege infringement against MPC within a reasonable period after learning that MPC had made commercial sales of devices that possibly infringed upon its '530 patent. Thus, the court finds that such delay was rea-

sonable and that VPC articulates a proper defense to MPC's assertion of the defense of laches. Consequently, the court will overrule MPC's motion for a decision by the court that VPC enforcement of its '005 and '530 patents was barred by the defense of laches.

IV.

VPC renews its motion requesting that this court enter judgment as a matter of law and, in the alternative for a new trial, on MPC's patent misuse defense. MPC bases its patent misuse defense upon the following allegations: (1) VPC's sending of patent infringement notices to "government contractors" and government agencies who purchased infringing interface devices from MPC without advising such purchasers of their rights pursuant to 35 U.S.C. § 271; (2) VPC's threatening to void warranties for patented VPC devices if unpatented MPC products were used with the VPC devices; (3) VPC's negotiations with ASCOR, Inc. as a result of which an ASCOR employee testified that VPC conditioned a proposed license to the '005 patent on ASCOR's purchase of unpatented products; and (4) VPC's meetings with ASCOR and GDE Systems during which meetings VPC allegedly threatened to enforce by suit the '005 patent. At the second phase of the trial, the jury returned a verdict in favor of MPC on the issue of patent misuse. VPC argues that there was no legally sufficient basis for the jury verdict.

As the court recalls the evidence, there was evidence which, if believed by a reasonable jury, is sufficient to support a jury verdict on any of the four allegations advanced by MPC. First, a reasonable jury could have found that some of the letters mailed by VPC to government contractors threatened to bring suit against these contractors pursuant to § 271 where VPC knew or should have known

that proper recourse for alleged infringement was suit against the government pursuant to 29 U.S.C. § 1498.[3] Secondly, there was evidence in the form of trial testimony that VPC threatened to void warranties of VPC patented devices if unpatented MPC devices were used with such VPC devices. At trial, the court, at least, was influenced by the fact that VPC's warranty provision failed to specify such a condition in the initial warranty provided to the customer at the time of sale. A reasonable jury could have concluded that VPC's conduct constitutes patent misuse where VPC threatened to void the warranty *after* the point of purchase where such a condition was not disclosed prior to the purchase. Third, based upon the testimony of Jeffrey Lum of ASCOR, the jury could have reasonably concluded that VPC's sale to ASCOR of Interchangeable Test Adapters ("ITAs") at a certain price was conditioned upon ASCOR's acceptance of VPC's licensing terms and conditions. Lum testified that VCP's licensing terms included ASCOR's promise to purchase unpatented VPC products. If, on the other hand, ASCOR did not agree to VCP's licensing terms and conditions, then VCP offered the ITAs at a price which was higher than the price listed in VCP's catalog. Finally, Russell Steward, a purchasing agent for GDE Systems, testified that one of VCP's salesmen suggested to Steward that GDE, a government contractor, could be sued for GDE's purchase of MPC's infringing interface devices Again, the court believes that a reasonable jury could conclude that such threats of infringement suits constitute patent misuse. Accordingly, the court will overrule VPC's motion for

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[3] For example, one letter to the Department of the Air Force stated:

> We [VPC] bring this matter to your attention in order to avoid future controversy. Anyone making, using or selling the above MAC Panel device would be an infringer in violation of 35 U.S.C. § 271 *et seq.*

judgment as a matter of law on this issue of patent misuse and will likewise overrule VCP's motion for a new trial.

MPC has moved the court for a partial new trial on the issue of VCP's misuse of the '530 patent during the period in which VPC had failed to pay the applicable fees to maintain its patent. After hearings on motions for summary judgment, this court held that the '530 patent was valid and enforceable. Before trial, VPC moved the court to exclude evidence related to the alleged misuse of the '530 patent because such evidence would be prejudicial to VPC and not probative of MPC's claim of misuse of the '005 patent. The court agreed with VPC and excluded all such evidence at phase two of the trial. The court reaffirms its prior decision and overrules MPC's motion for a partial new trial.

Finally, MPC has moved the court to set aside the patent infringement damages award from the first phase of the trial based upon the fact that the jury in phase two concluded that VPC had misused its '005 patent during the period of alleged infringement and that, therefore, VPC's '005 patent was unenforceable. The patent remains unenforceable until the misuse is purged. MPC argues that patent misuse renders a patent holder's patent unenforceable, not invalid, and that, therefore, VPC cannot recover damages for alleged infringement during the period in which VPC misused its '005 patent. VPC argues that the doctrine of patent misuse is equitable in nature and that the court has discretion in deciding whether to set aside an award of damages for patent infringement. After considerable examination of the applicable case law, the court has concluded that it should grant MPC's motion to set aside the award of damages on VPC's patent infringement claim.

V

Regarding the counterclaim for monopolization, VPC requests that the court set aside the jury verdict finding that VPC engaged in monopolization of the Consolidated Automated Support System Test Program Sets (''CASS TPS'') market, in violation of the so-called Sherman Antitrust Act. Essentially, VPC argues the following:

(1) that MPC impermissibly limited the relevant product market to include only those products covered by the '005 patent;

(2) that VPC's infringement notices do not constitute anticompetitive behavior;

(3) that VPC's voiding of warranties does not constitute illegal anticompetitive behavior; and,

(4) that MPC failed to make a legally sufficient showing of antitrust injury.

Regarding VPC's first contention, the court considers the question of the relevant product market to be properly characterized as the quintessential ''battle of the experts.'' VPC attacks the methodology employed by MPC's antitrust expert to determine characteristics of devices sold in the relevant product market. VPC attacks also the expert's conclusion that the relevant product market consisted only of those products characterized by discrete attributes, which products were manufactured by VPC and MPC only. As asserted by MPC, MPC's expert gathered information from VPC's sales reports, the parties' sales literature, and customer requirement documents. MPC's expert conducted telephone interviews of customers and participants in the Automated Test Equipment (ATE'') market. The court finds that there was a reasonable basis on which the jury could have concluded that MPC's expert applied appropriate methods to determine the relevant product market.

Likewise, the court cannot conclude that the relevant product market as identified by MPC's expert was too narrow. First, the court recalls testimony that the ATE product market is relatively small — approximately $6.5 million in annual sales. MPC's expert testified that such a market was too small to attract numerous competitors and that his research revealed that VPC and MPC were the major competitors with a third competitor poised to enter the market. Additionally, MPC's expert identified numerous characteristics common to interface devices on ATEs. Products within a relevant product market must be reasonable substitutes or be interchangeable in order to compete within the specified market. *See International Wood Processors v. Power Dry, Inc.*, 792 F.2d 416, 430 (4th Cir. 1986). VPC had ample opportunities at the second phase of trial to present evidence suggesting that the relevant product market was broader, and indeed, VPC introduced the testimony of its own expert witness. The court is convinced that the jury verdict in this case was the result of the jury finding one expert witness more convincing than it found the other. Consequently, the court concludes that there was ample evidence to suggest that MPC's expert witness applied proper methodology to arrive at the relevant product market which the jury found to exist.

Courts have found that litigation threats and harassment directed toward a competitor's customers violate the antitrust laws. *Kobe v. Dempsey*, 198 F.2d 416, 424-25 (10th Cir.), *cert. denied*, 344 U.S. 937 (1952). Where the threats of litigation had the effect of eliminating competition and of monopolizing by 90% the relevant market, then the conduct may reasonably be characterized as anti-competitive. In the instant case, there was evidence adduced at trial suggesting that VPC used its monopoly power in its receivers and ITAs to foreclose and destroy competition in the interface component market. As MPC was the only viable competitor in the

relevant market, VPC's threats to sue customers of MPC is especially probative of VPC's effecting its plan to monopolize the market. Indeed, evidence suggested that VPC's attempts were successful: MPC's market share in the relevant product market dropped from twenty-one percent to ten percent.

Likewise, the court concludes that VPC's threats to void warranties if customers used non-VPC components with VPC's patented receivers and ITAs constitutes anti-competitive behavior. There was evidence presented at trial suggesting that VPC's purpose in threatening to void warranties was to force customers into purchasing non-patented VPC components to be used with VPC patented items. Clearly, a reasonable jury could have concluded that such conduct effectively extended VPC's monopoly power to include those items which VPC's sole competitor — MPC — could legally sell without infringing upon VPC's '005 patent. Anti-competitive practices may exist where a patent holder uses an unpatented product or intangible business practice — here, the practice of providing product warranties — to exploit the legal monopoly obtained via the patented product. *See Ethyl Gasoline Corp. v. United States*, 309 U.S. 436 (1940).

Finally, there was ample evidence from which a reasonable jury could conclude that MPC suffered antitrust injury. Before the second phase of trial, MPC estimated that its total actual loss attributable to VPC's anti-competitive conduct approximated $178,898. MPC arrived at its actual lost profits by calculating the actual amount of lost sales over a nine-quarter period during which MPC's market share diminished in the relevant product market. The actual amount of lost sales is applied to MPC's incremental profit margin of 30.6% to arrive at an actual lost profits figure of $178,898. The court is not convinced that the jury failed to consider the evidence that suggested that MPC's loss of market share

in the relevant product market was attributable to legitimately competitive factors.[4] However, the jury declined to award MPC its full requested amount of alleged damages. Thus, the court concludes that there was ample evidence demonstrating that MPC suffered antitrust injury and that the jury considered VPC's proffered argument that legitimate business practices accounted for a portion of MPC's injury. Accordingly, the court will overrule VPC's motion for judgment as a matter of law on MPC's counterclaim of monopolization and, in the alternative, for a new trial.

Similarly, VPC argues that there was insufficient evidence to support a jury verdict that VPC acted with the specific intent to monopolize a relevant product market. To prevail upon a claim of attempted monopolization pursuant to Section 2 of the Sherman Act, MPC must demonstrate that (1) VPC formed a specific intent to monopolize the relevant product market; (2) VPC engaged in anti-competitive or predatory conduct designed to further than intent; and, (3) there existed a dangerous probability that VPC would succeed. *See, e.g., Abcor Corp., AM Int'l Inc.*, 916 F.2d 924, 926 (4th Cir. 1990); *Advanced Health-Care Servs., Inc. v. Radford Community Hospital*, 910 F.2d 139, 147 (4th Cir. 1990). VPC, of course, argues that it did not have the specific intent to monopolize the relevant market; that it did not engage on predatory or anti-competitive behavior,[5] and

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[4] VPC claims that MPC's experts failed to consider the effect of the 1988 CASS contract on market share; that MPC's experts failed to consider the effect of the termination of the MATE program on market share; that more than 50% of MPC's lost profits resulted from VPC's legitimate business practices; and that VPC increased its sales force threefold.

[5] The court does not find it necessary to repeat its analysis of VPC's argument that its practices which the jury found to constitute patent misuse do not constitute predatory or anti-competitive conduct.

that there was no dangerous probability that it would succeed in monopolizing the relevant market.

VPC argues that the specific intent element is proved when it is shown by direct evidence that a defendant sought to create a monopoly by circumventing the competitive process. *Abcor*, 916 F.2d at 927. MPC, on the other hand, argues that "specific intent may be inferred from the defendant's anti-competitive practices." *M&M Medical Supplies & Servs., Inc. v. Pleasant Valley Hosp., Inc.*, 981 F.2d 160, 166 (4th Cir. 1992) (citing *Abcor*, 916 F.2d at 926). MPC attempted to imply VPC's intent to monopolize by demonstrating (1) that VPC competed on a basis other than price, quality or efficiency; and (2) that the relevant market was limited to the CASS TPS market. VPC argues that its prices were approximately ten percent lower than MPC's prices and that its warranty was far superior to MPC's warranty offer. At the second phase of trial, MPC introduced evidence suggesting that VPC had encountered quality control problems with some of its devices, specifically pin problems and connector failures. MPC specifically refers to memoranda from Allied Signal, Lockheed Sanders, Inc., General Electric, and the United States Navy, which memoranda each discusses some performance problems with VPC equipment. Where there is conflicting evidence on the issue of price, quality and efficiency, the question is properly before a jury. Furthermore, as discussed *supra*, the jury could have inferred that VPC possessed anti-competitive intent by engaging in the conduct constituting patent misuse: the sending of threatening infringement notices; the threatening to void warranties; and the exploiting of its patented products to achieve increased sales of its unpatented products. Consequently, the court finds that a reasonable jury could have concluded that VPC formed the specific intent to monopolize the relevant product market because there were questions regarding the quality of VPC products

and because VPC engaged in specified conduct shown to constitute patent misuse from which conduct intent to monopolize may have been reasonably inferred.

The court finds that there was sufficient evidence from which a reasonable jury could conclude that there existed a dangerous probability that VPC's anti-competitive conduct would result in the monopolization of the relevant product market. Given the tight parameters of the relevant product market, the jury could have concluded that VPC's attempts to squeeze out the one viable competitor in the market had a significantly dangerous probability of success. Indeed, there was evidence that MPC's market share was reduced significantly as a result of VPC's conduct. Consequently, the court will overrule VPC's motion for judgment as a matter of law and, in the alternative for a new trial, on MPC's counterclaim of attempted monopolization.

MPC has moved the court for a partial new trial on the issue of damages predicated upon VPC's anti-competitive conduct in the past. At the second phase of trial, MPC sought to introduce evidence of its future lost profits. MPC arrived at its projected lost profits by taking MPC's historic market share of 16.3% and applying that percentage to the total amount of sales in the CASS TPS market projected for 1995-1998. MPC then applied its hsitoric incremental profit margin of 30.6% to the projected amount of MPC CASS TPS sales. After reducing to present value, MPC estimates its projected lost profits in the amount of $236,925. The court considered MPC's estimates to be highly speculative and therefore excluded MPC's evidence of future profits from jury consideration.

It is well settled that if the "proffered evidence permits no more than 'pure speculation and guesswork,' then the damage evidence is insufficient as a matter of law." *Wells Real Estate, Inc. v. Greater Lowell Bd. of Realtors*, 850

F.2d 803, 816 (1st Cir.), *cert. denied*, 488 U.S. 955 (1988). The court considers MPC's estimate of its future losses to be highly speculative. While MPC's expert testified that it would take a number of years for MPC to regain its lost market share, the expert failed to distinguish between the portion of the market share which would be regained upon VPC's cessation of its anti-competitive practices and the portion of the market share attributable to the CASS TPS program which MPC would not be able to regain due to VPC's contract with the Navy. MPC arrives at its estimate of future lost profits based upon an extension of its damages calculation based upon its historic injury for the time period relevant to this litigation. In the court's viewpoint, such an estimate is too speculative. Consequently, the court will overrule MPC's motion for a partial new trial in the issue of damages predicated upon VPC's anti-competitive conduct in the past.

Finally, MPC has moved the court for an award of treble damages, an award of attorneys' fees and an award of costs, all pursuant to Section 4(a) of the Clayton Act, 15 U.S.C. § 15(a) (1995). Section 4(a) provides:

> Any person who shall be injured in his business or property by reason of anything forbidden in the anti-trust laws may sue therefor in [the] district court of the United States and *shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee*.

15 U.S.C. § 15(a) (emphasis added). Once a plaintiff establishes actual injury and damage, trebling of established damages follows as a matter of law. *See Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 133 n.8 (1969). Accordingly, the court will enter an order trebling the damages award to MPC on the monopolization and attempt-

ed monopolization claims in the amount of $152,222 to the amount of $456,666.

Pursuant to the language of section 4(a), the court will also award MPC costs and its reasonable attorneys' fees. *See Christiansburg Garment Co. v. E.E.O.C.*, 434 U.S. 412 (1978) (attorney's fees awarded); *Sun Pub. Co., Inc. v. Mecklenberg News, Inc.*, 823 F.2d 818, 819 (4th Cir. 1987) (same); *Seven Gables Corp. v. Sterling Recreation Organization Co.*, 686 F. Supp. 1418, 1423-24 (W.D. Wash 1988) (costs). The court has carefully considered MPC's request for costs and attorneys' fees, particularly the request of attorneys' fees. The court is unable to conclude that an award of attorneys' fees in the amount requested of $1,429,623.63 is consistent with this court's viewpoint on reasonable attorneys' fees under the circumstances of this case, namely, the amount of actual damages recovered by MPC. The court considers it more appropriate and reasonable that an award of attorneys' fees reflect the prevailing party's degree and scope of success in the case. Accordingly, the court will order an award of costs to MPC in the amount of $157,928; and will order an award of attorneys' fees in the amount of $913,332.

VI

VPC renews its motion for judgment as a matter of law on its claim of false advertising pursuant to the so-called Lanham Act, 15 U.S.C. §§ 1501 *et seq.* (1995). At the close of evidence during the second phase of the trial, the court instructed the jury that to prove its Lanham Act claim, VPC must demonstrate:

(1) that Mac Panel has attempted to sell its modular interface connectors for the U.S. Navy CASS TPS program by making false or deceptive advertisements and representations to CASS TPS customers;

(2) that Mac Panel's false and deceptive representations and advertisements have actually deceived a significant portion of the CASS TPS customers; and

(3) that Virginia Panel has been injured by Mac Panel's conduct.

VPC assigns error to this court's instruction regarding element numbered (2). Specifically, VPC argues that it was error for this court to instruct the jury that it was necessary that MPC's representations and advertisements *have actually deceived a significant portion* of the CASS TPS customers.

VPC relied upon the language of § 43(a) of the Lanham Act in arguing that it is not necessary that MPC's false representations and advertisements have actually deceived a significant portion of the market; rather, it is sufficient that the representations or advertisements merely caused actual deception or have a tendency to deceive.[6] VPC argues that to recover damages under § 43(a), it need only prove "some

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[6] Section 43(a) of the Lanham Act provides, in relevant part, that:

> Any person who . . . uses in commerce . . . any false or misleading description of fact, or false or misleading representations of fact, which—
>
> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such persons with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or
>
> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his ir her or another persons goods, services, or commercial activities,
>
> shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

customer reliance on the false advertisement." *Parkway Baking Co. v. Freihofer Baking Co.*, 255 F.2d 641, 648 (3rd Cir. 1958). VPC contends that there was sufficient evidence adduced at trial to demonstrate that there had been at least one occurrence of actual deception: Pat Dunham of the Naval Depot in San Diego, California, testified that his organization purchased one of MPC's CASS components based upon MPC's representation in its catalog that MPC had been qualified by the Navy or General Electric as a supplier for CASS components.

MPC responds that numerous court have required proof of actual deception by a substantial segment of the advertiser's audience. *See Harper House, Inc. v. Thomas Nelson, Inc.*, 889 F.2d 197, 208 (9th Cir. 1989); *American Rockwool, Inc. v. Owens-Corning Fiberglass*, 640 F.Supp. 1411, 1439, 1443 (E.D.N.C. 1986); *Max Daetwyler Corp. v. Input Graphics Inc.*, 608 F. Supp. 1549, 1551 (C.D. Pa. 1985); *Olsonite Corp. v. Bemis Mfg. Co.*, 610 F. Supp. 1011, 1025-26 (D.C. Wis. 1985); *Walker-Davis Publications, Inc. v. Penton/IPC, Inc.*, 509 F. Supp. 430, 435 (E.D. Pa. 1981); *Skil Corp. v. Rockwell Int'l Corp.*, 375 F. Supp. 777, 783 (E.D. Ill. 1974). This court will join these courts in requiring that there be actual deception of a significant portion of the advertising market before a Lanham Act claim is established. Certainly, proof of only one actual deception cannot serve as establishing by a preponderance evidence that there was actual deception. Accordingly, the court will overrule VPC's motion for judgment as a matter of law on the Lanham Act claim or, in the alternative, for a new trial.

VII

MPC moves the court for judgment as a matter of law on the claim of false advertising pursuant to Virginia Code

Ann. § 18.2-216.[7] In essence, MPC claims (1) that the jury could not have concluded that MPC committed false advertising in Virginia because there was no evidence that MPC committed false advertising in Virginia; (2) that the Virginia False Advertising statute does not permit business competitors to recover for potential lost sales; and, (3) that it is unconstitutional for a state to apply its laws to conduct that has no connection to that state.

First, there was sufficient evidence adduced at trial from which evidence a reasonable jury could conclude that MPC committed false advertising within the Commonwealth of Virginia. The most probative evidence is that MPC disseminated its challenged catalogs to NAVAIR, which served as the headquarters of both the CASS and the CASS TPS programs and is located in Arlington, Virginia. There was evidence also that MPC personnel attended a so-called Pre-Solicitation Conference held at the Naval Depot in Norfolk, Virginia. MPC presented testimony of its president to the effect that MPC had not distributed its catalogs to either the Norfolk Naval Depot or NAVAIR headquarters. However, it is clear to this court that the jury, by returning a

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[7] Section 18.2-216 provides, in relevant part, that

> Any . . . corporation . . . who, with the intent to sell or in any way dispose of merchandise, . . ., offered by such . . . corporation . . ., directly or indirectly, to the public for sale . . ., makes, publishes, disseminates, circulates, or places before the public, directly or indirectly, . . . in the form of a pamphlet or letter or in any other way, an advertisement of any sort regarding merchandise . . ., representation or statement of fact which is untrue, deceptive or misleading shall be guilty of a misdemeanor.

Section 59.1-68.3 provides for a civil remedy for a violation of § 18.2-216:

> Any person who suffers a loss as a result of a violation . . . shall be entitled to bring an individual action to recover damages . . . .

verdict in favor of VPC, discounted the testimony of MPC's president. The court will not disturb the jury verdict where there exists sufficient evidence to support such a verdict. Furthermore, because there was sufficient evidence to suggest that MPC committed false advertising within the Commonwealth of Virginia, MPC's argument that the application of the Virginia False Advertising Statute is unconstitutional is not well-taken.

Secondly, the court agrees with VPC that the Virginia statute clearly contemplates recovery by a business competitor of the corporation committing the false advertising. VPC notes that the language of the statute — "[a]ny person who suffers a loss . . . shall recover . . . ." — supports a conclusion that injured competitors, as well as injured customers, may recover under a claim of false advertising.[8] Where the Virginia legislature has drafted the language of the provision permitting civil recovery in very broad terms, it is not the role of the courts, especially federal courts, to provide exceptions to such a provision. Consequently, the court will overrule MPC's motion for judgment as a matter of law of the Virginia False Advertising claim.

MPC has moved also that the court order a partial new trial on the issue of damages on the Virginia False Advertising claim. At the second phase of the trial, the jury awarded VPC $64,853.00, which amount represents approximately one-third of the amount that VPC had requested in its amended complaint. MPC asserts that the testimony of VPC's damages expert was speculative and unsupported by the record. The court disagrees.

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[8] The court notes additionally that the nexus between MPC's false advertising and the constitutional applicability of the Virginia statute is strengthened when one considers that the alleged loss was suffered by a Virginia corporation — VPC.

As argued by VPC, the damages expert testified that he reached his conclusions in reliance upon (1) information provided to him by VPC regarding expenses incurred in combating MPC's false advertising claim, as verified by Sandra Stowers, VPC's chief financial officer; (2) MPC's sales of CASS ITAs and related products from February 1, 1992 through August 28, 1993, as obtained from MPC sales invoices; and, (3) VPC's incremental profitability calculations, based upon the expert's analysis of VPC's book, records, and operations. The court does not accept MPC's assertion that the expert was required to independently audit the sources of his information. Rather, the court believes that it is sufficient that the expert articulate the sources of his analysis and that such sources be deemed reliable. After considering the testimony of VPC's expert and the amount of damages awarded on this issue, the court concludes that MPC has failed to demonstrate either substantial injustice or prejudicial error, and, therefore, the court will overrule MPC's motion for a new trial on the issue of damages on the Virginia False Advertising claim.

Finally, VPC has requested that the court award attorneys' fees and costs associated with the Virginia False Advertising claim.[9] VPC has requested $145,506 in attorneys' fees and $135,166 in costs. Pursuant to § 59.1-68.3, the court will award VPC its attorneys' fees in the amount requested, $145,506; however, the court will overrule VPC's motion for costs.

VII

On July 27, 1995, this court entered an Order which (1) temporarily enjoined MPC from infringing the '005 patent

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[9] Va. Code Ann. § 59.1-68.3 provides that

> Notwithstanding any other provision of law to the contrary, in addition to the damages recovered by the aggrieved party, such person may be awarded reasonable attorney's fees.

"by manufacturing, using or selling for commercial non-government purposes the adjudged infringing receivers or ITAs it was making, using, and selling as of March 6, 1995," or devices "no more than colorably different from such infringing devices;" and, (2) temporarily enjoining MPC from infringing the '530 patent "by manufacturing, using or selling snap-in modules with side springs," Relative to the '005 patent, the temporary injunction specifically excluded ITAs manufactured and sold for use with VPC receivers purchased prior to January 1993. VPC now requests that this court enter an Order converting the July 27, 1995 temporary injunction into a permanent inunction. MPC, on the other hand, has moved the court to vacate the temporary injunction and to enforce surety's liability on bond.

As noted by VPC, "an injunction will issue when infringement has been adjudged, absent a sound reason for denying it." *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989). MPC argues that an injunction should not issue where the patent holder has been found to have misused the patent. *See, e.g., Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 668 n.10 (fed. Cir. 1986). However, once the misuse has been purged, then the patent may be enforced. *See, e.g., The Rawlplug Co., Inc. v. Illinois Tool Works, Inc.*, 1994 U.S. Dist. LEXIS 7148, *10 (S.D.N.Y. 1994). In the instant matter, VPC has proffered the affidavit of Sandra Stowers, in which affidavit Ms. Stowers represents to the court that prior to the trial VPC discontinued all practices which MPC alleged to constitute patent misuse. MPC observes that the requirement of demonstrating that misuse has been purged is two-fold: first, that the patent holder demonstrate that the misuse has been abandoned, and secondly, that the effects of the misuse have been dissipated in order to render the patent once again enforceable. *See B.B. Chemical Co. v. Ellis*, 314 U.S. 495

(1942); *Morton Salt Co. v. G.S. Suppinger*, 314 U.S. 488 (1942). MPC argues that the a court may require a patent holder to affirmatively act to counteract the detrimental effects of the misuse. *See The Ansul Co. v. Uniroyal, Inc.*, 306 F. Supp. 541 (S.D.N.Y. 1969), *aff'd in relevant part*, 169 U.S.P.Q. 759 (2d Cir. 1971), *cert. denied*, 404 U.S. 1018 (1972). The court concludes likewise that the detrimental effects of VPC's patent misuse have been dissipated, inasmuch as VPC has affirmatively ceased all conduct constituting patent misuse. The court notes that it is difficult to measure the impact of VPC's patent misuse upon MPC's loss of market share in the relatively tight ATE interface market. Indeed, it is difficult for this court to hypothesize on the affirmative steps that VPC could take which would negate the detrimental effects of its patent misuse where the quantitative measure of such effects is so difficult to ascertain. Accordingly, the court concludes that VPC's steps to cease the conduct constituting patent misuse is the only viable affirmative step which VPC could take under the circumstances of this case. Accordingly, the court will grant VPC's motion to convert the July 27, 1995 temporary injunction into a permanent injunction.[10]

VII

MPC has moved the court to enter final judgment in this case. The court considers MPC's motion well-taken. Consequently, for the reasons stated herein, the court will this day issue an appropriate Order.

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[10] Consequently, MPC's motion to vacate the temporary injunction and to enforce the bond posted by VPC in the amount of $50,000.00 will be overruled.

ENTERED: /s/ James H. Michael, Jr.
Senior United states District Judge
May 29, 1996
Date

A TRUE COPY, TESTE:
MORGAN E. SCOTT, JR., CLERK
BY: /s/ B. Hensley
DEPUTY CLERK

APPENDIX E

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

ORDER

[stamp—FILED, U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT, FEB 20 1998, JAN HORBALY, CLERK]

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLANT, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on February 27, 1998.

FOR THE COURT,
JAN HORBALY, CLERK

Dated: February 20, 1998

By /s/ Alex Van Veen /s/ amt
Alex Van Veen
Staff Law Clerk

cc: THOMAS H. JENKINS
KENNETH E. KORSIN

VIRGINIA PANEL CORP V MAC PANEL CO, 96-1416, -1432
(DCT - 93-CV-6)

Note: Pursuant to Fed. Cir. R. 47.6, this order is not citable as precedent. It is a public record.